PANAMA CANAL COMMISSION REAUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
PANAMA CANAL/OUTER CONTINENTAL SHELF

OF THE

COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE REAUTHORIZATION OF THE PANAMA CANAL COMMISSION AND AN OVERVIEW OF THE OPERATIONS AND ACTIVITIES OF THE COMMISSION IN THE CANAL ZONE

MARCH 16, 1989

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PANAMA CANAL COMMISSION REAUTHORIZATION

THURSDAY, MARCH 16, 1989

House of Representatives,
Subcommittee on the Panama Canal/Outer Continental Shelf,
Committee on Merchant Marine and Fisheries,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in Room 1334, Longworth House Office Building, the Hon. Roy Dyson (chairman of the subcommittee) presiding.

Members present: Representatives Dyson, Lipinski, and Bentley.

Staff present: Charles Ulrich, Dolores Wesson, Cher Brooks, Ed Welch, Barbara Cavas, Harry Burroughs, Dave Whaley, and George Pence.

Mr. Dyson. Gentlemen, we are waiting for one of our colleagues, but we are not going to wait any longer.

OPENING STATEMENT OF HON. ROY DYSON, A U.S. REPRESENTATIVE FROM MARYLAND, AND CHAIRMAN, SUBCOMMITTEE ON PANAMA CANAL/OUTER CONTINENTAL SHELF

Mr. Dyson. I would like to call the hearing to order, now, and welcome our distinguished guests this morning.

We have with us today Mr. William Gianelli, who is Chairman of the board of directors of the Panama Canal Commission, and General Phil McAuliffe, the Panama Canal Commission Administrator.

Mr. Gianelli, General McAuliffe, welcome to the first hearing being convened during the 101st Congress by the Subcommittee on the Panama Canal and the Outer Continental Shelf.

I would also like to extend a welcome to the subcommittee, to our colleague, Bill Lipinski, who is sitting in today, and, as I said, very shortly, Representative Bentley, who will be the Ranking Minority member this morning.

It is an important year for the Panama Canal, and for U.S. relations with the people of Panama. Your interest and experience will help guide the subcommittee as it takes up a full schedule of hearings on the activities and operations of the Panama Canal Commission.

We have, and will continue to have, much to discuss. I think it is safe to say that there has been only one shining success in this country's Panamanian policy. That I believe is the skill with which Mr. Gianelli and General McAuliffe, and other staff of the Panama Canal Commission, have kept the canal out of the Panamanian political situation. For this achievement, you are all to be congratulated. You are operating in the middle of a very troubled nation. For 7 years, it has been in the grip of General Manuel Noriega.

Mr. Noriega represents a real and present threat to the security not just of Panamanians, but of the United States, and of every struggling democracy throughout Central America.

In a sense, the canal is probably least threatened of all. It is now, as it was before the 1977 Treaty, Panama's golden goose. Each year, more than 12,000 ships transit the canal, steaming with 150 million long tons of cargo.

This traffic includes ships from every region of the globe and commodities of all types. The canal is not perhaps absolutely vital to all of this traffic, but it is absolutely essential to every trading nation that the canal remain open to all traffic and operate free of political disturbance.

If Noriega chose to seriously obstruct the canal, he would rob his own people of their economic treasure, and he would transform himself from a regional dictator into a menace to international commerce.

Right now, he is just a racketeer and an outlaw, of the same sort that ran amok in the Prohibition Era of America. He is an outlaw on a huge scale, and his poison is not the old bathtub gin; it is the white death of the coca leaf. But he is still just an outlaw, hired by the international cocaine cartel to provide them cover and sanctuary.

The canal is an artery that runs across the heart of Panama, and it is not inconceivable that a gangster like Noriega might, in a moment of panic, reach out to cut that artery.

Noriega threatens the security of this country, and the hemisphere, not just because the canal is a complex machine he might smash, but because his ruthlessness will lead him to any measure in an attempt to preserve his empire.

This country's Panamanian policy was flawed from the moment it was decided that we could trust and court Noriega as an ally. Now that we are his determined foe, he has shown himself willing to befriend any power that might help support his career.

There are reports that he is making valued allies in Nicaragua, Cuba, and the Soviet Union. Do we have any reason to think that Noriega will refuse their assistance, both military and economic, if conditions in Panama continue to get worse?

As you may know, I am also a member of the House Armed Services Committee, and my perspective on Panama is shaped by a concern for anything that affects the country's national defense.

In fact I would take an aside right now to say that my many trips to Panama have always been under the auspices of the Committee on Armed Services.

In this context, I am troubled by the prospect that U.S. commerce and military forces might lose access to the canal. I am convinced that Noriega's fingerprints are on much, if not all, of the cocaine now flowing into this country, poisoning our children and touching off violent gang wars in our cities, including the very one we are in now.

But I am extremely troubled by the prospect that Noriega will sell to the Soviets and others the opportunity to expand their influence in Central America. If Panama were to follow Nicaragua into the Soviet orbit, I do not believe the Soviets would resist the temptation to exploit their advantage.

I know that many of my colleagues share these concerns. They, too, are sensitive to the canal's vulnerability. Motivated by their repugnance of Noriega, their sensitivity to the canal's importance and vulnerability, and their commitment to ridding the Western Hemisphere of Soviet influence, some of these colleagues have called for the U.S. to abrogate the Panama Canal treaty.

I too am repulsed by Noriega. I am equally sensitive to the national and international security importance of the canal, and I am as strongly committed to repelling the influence of the Soviet Union in Latin and South America as anyone who serves in this Congress.

Despite my natural inclination to uphold the foreign agreements this country has entered into, I can understand the arguments that lead my reasonable colleagues to call for the canal treaty's abrogation.

But I cannot subscribe to the belief that we will achieve any of our policy goals, nor stabilize relations in Central America, nor do justice to the Panamanian people who have never betrayed our trust, by renouncing the Panama Canal treaty.

This will undoubtedly be a topic that arises from time to time during the next 2 years, and I look forward to further discussions with members of the subcommittee and the full committee as we continue to examine the impact of Panama's future on the future operations of the canal.

But today we are here to review the budget of the Panama Canal Commission, and that is what I would like to do.

Mr. DYSON. At this initial meeting, I would first like to ask my colleague, the Ranking Minority member, Mrs. Bentley, if she has any opening remarks.

Mrs. BENTLEY. Thank you, Mr. Chairman. I have a statement I would like to have submitted in behalf of the Ranking Minority member on this committee, Jack Fields.

Mr. DYSON. We will ask unanimous consent to have that included in the record.

[The prepared statement of Mr. Fields follows:]

PREPARED STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS

Mr. Chairman, I would like to welcome and congratulate you on your selection as the new Chairman of the Panama Canal/Outer Continental Shelf Subcommittee.

You have become chairman during one of the most difficult and contentious periods in the history of the Panama Canal.

Nevertheless, you can be assured that I will continue to address each Panama Canal issue in a non-partisan manner and I look forward to working with you.

I would also like to welcome back to our Subcommittee Bill Gianelli and Phil McAuliffe. These two gentlemen have done an extraordinary job under the most difficult of conditions.

Despite constant threats and harassment from the illegal Noriega Regime, they have succeeded in keeping the Canal operating safely and efficiently. The American people and the world shipping community owe them and the more than 8,500 employees of the Panama Canal Commission—who have my great admiration—a tremendous debt of gratitude.

This year is a particularly critical one because there are three key events which will have a profound impact on the Canal and our relationship with the Republic of Panama. These are: the Panamanian general elections which are scheduled for May

7th; the end of President Delvalle's term of office on August 31st; and the change to a Panamanian administrator on January 1, 1990.

Clearly, our Subcommittee will be watching these developments very closely with particular interest on how they affect the operation of the Panama Canal.

Mr. Chairman, I am pleased that you have scheduled this authorization hearing in such an expedited manner. It is my hope that we can report a "clean" authorization bill to the House of Representatives within the next 30 to 60 days. While I am sure there will be a temptation by some to renegotiate some, if not all, of the Panama Canal Treaties of 1977, the authorization bill is not the proper vehicle for that debate. Under the terms of the Omnibus Budget Reconciliation Act of 1987, it is essential that the Congress enact a PCC authorization bill for FY '90 and the only way we can assure success is to report a "clean" proposal.

Mr. Chairman, in addition to the authorization bill, I would hope that we would separately act on H.R. 1347 and H.R. 1348, two measures which I recently introduced. These are non-controversial bills which make minor but important improvements in the operation of the Panama Canal. I would, in particular, highlight one key provision which will for the first time allow some 50 individuals—including Panama Canal pilots and other hired after September 30, 1979—to participate in the Commission's early retirement system. Under the terms of H.R. 1347, these employees would be treated in exactly the same manner as those hired by the former Panama Canal Company. At a time of increasing tension, I think the least we can do is to establish an incentive and reward for those willing to work for the Commission until the year 2000. And I'm glad that the Commission has expressed a willingness to work with out Subcommittee in this matter.

I would also like to see our Subcommittee give serious consideration to the idea of making the Panama Canal Commission an independent Federal agency. While I'm not suggesting that we give up our authorizing responsibility, the past two years have convinced me that the Commission must have a voice independent of the Department of Defense.

Finally, I am hopeful that together, we can, Mr. Chairman, work with the Bush Administration in an effort to improve the quality of life for both American and Panamanian employees of the Panama Canal Commission.

In my judgment, these employees are being held hostage in a dangerous and escalating game of tensions between the United States and General Noriega.

It is time for our government to resolve the issues of employee tax payments, educational fees, automobile registrations and a host of other matters which have caused such concern for thousands of PCC employees and their families.

Mr. Chairman, there is much to be done and I look forward to working with you to ensure that the Panama Canal continues to operate smoothly in the days ahead.

Thank you, Mr. Chairman.

OPENING STATEMENT OF HON. HELEN DELICH BENTLEY, A U.S. REPRESENTATIVE FROM MARYLAND

Mrs. Bentley. Thank you. And Mr. Chairman, my first order of business for the day, along with that of Jack Fields, is to congratulate you on becoming Chairman of this subcommittee. I am delighted to be working with you on this committee.

As you know, the political and social situation in Panama has heightened tensions in our relations with that country, as you have well outlined here, Mr. Chairman, placing additional stress on the operations of the Canal and the 8500 men and women employed there.

I want to applaud those dedicated workers, both Americans and Panamanian, and their families, who have been subjected to various forms of harassment and intimidation, including physical confrontations and assault.

Despite the uncertainties imposed upon them by the events of the past year, the Panama Canal has been operated efficiently and effectively. The flow of international cargo, much of it vital to United States trade, has not been disrupted.

It is to these men and women, and their continued high degree of professionalism under the most trying circumstances that I dedicate my support today for the Commission's reauthorization.

How long that level of efficiency can be maintained is questionable, given the instability of the corrupt and illegal government of General Manuel Noriega.

Mr. Chairman, I believe it is incumbent also upon our Government to do more for the Americans employed by the Commission. It has been brought to my attention that the State and Defense Departments have taken steps to relocate the families of their personnel, to remove them from the potentially explosive environment which has exposed them to great risk.

The Commission, on the other hand, has stymied the efforts of its employees who are concerned about the safety of their families, placing impediments that are unwarranted and unnecessary.

Mr. Chairman, the internal strife of Panama could worsen during the election process on May 7th. Panama is a powder keg, as we all know, threatening to explode from the slightest political spark, and General Noriega is holding a pack of matches in his hands.

Commission employees, particularly the Americans and their families, stand to be caught in the middle.

While the internal strife of Panama is not the objective of this proceeding, I hope that Mr. Gianelli and Mr. McAuliffe will spend a few minutes addressing the impact of this situation on the men and women in their employ.

Thank you, Mr. Chairman.

Mr. Dyson. Thank you, and I certainly would like the subcommittee to know it is nice to have the gentlelady from Maryland attending. She brings a tremendous amount of expertise to this subcommittee and our full committee, just from her own experience as former Chairman of the Maritime Commission, and her own independent studies over the years. We appreciate your being here today.

Mrs. Bentley. Thank you.

Mr. Dyson. We also are very honored to have with us the gentleman from the State of Illinois, Mr. Lipinski, and I would ask you, Congressman, if you have any opening statement.

OPENING STATEMENT OF HON. WILLIAM O. LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS

Mr. Lipinski. I just have a brief statement. I congratulate our new Chairman. I am looking forward to serving on this committee. I welcome the two gentlemen here this morning. I am very interested in hearing what they have to say about the entire situation in Panama. But I have to correct our Chairman. I do not represent the State of Illinois. I represent the City of Chicago. Thank you very much.

Mr. Dyson. Has that become a new State?

Mr. Lipinski. If we had our way it would.

Mr. Dyson. Thank you. We have a couple of other housekeeping things to do. I ask unanimous consent that a statement by the

Chairman of the full committee, Mr. Jones, be entered in the record at this point.

[The prepared statement of Mr. Jones follows:]

STATEMENT OF HON. WALTER B. JONES, A U.S. REPRESENTATIVE FROM NORTH CAROLINA, AND CHAIRMAN, COMMITTEE ON MERCHANT MARINE AND FISHERIES

As always, it is good to once again see our friends from the Panama Canal Commission. We welcome you to testify before the Subcommittee on Panama Canal/OCS on the Fiscal Year 1990 budget.

As you know, our committee was instrumental in setting up a revolving fund account for the Panama Canal Commission (PCC). Part of the understanding in establishing a revolving fund was the requirement that the PCC continue to work with the authorizing committees of Congress. For this reason, I believe it is wise to authorize an annual budget, instead of a biennial budget. Because the PCC was taken out of the appropriations process, it does not mean Congress is no longer interested in oversight of the budget. We did not want your budget part of arbitrary appropriation cuts, but we do want annual congressional oversight of the PCC budget.

I am also interested in your testimony concerning the proposed toll increase. I think it is important to carefully study the shippers' comments when the proposed toll increase is open for public comment. I would also like to see our committee involved in this process.

This is a good time to thank you for the excellent job you have done with the operation of the Panama Canal, especially during these times of political turmoil in the Republic of Panama. It is important for you to know how sincerely we respect your work and how very aware we are of the excellent performance of the PCC employees.

Thank you again.

Mr. DYSON. I also ask unanimous consent that the statement of the former Chairman of this subcommittee, Congressman Billy Tauzin of the State of Louisiana, be included at this point.

[The statement of Mr. Tauzin follows:]

PREPARED STATEMENT OF HON. BILLY TAUZIN, A U.S. REPRESENTATIVE FROM LOUISIANA

Mr. Chairman, as you begin your work I want to extend my best wishes to you, Subcommittee Members, and the able staff on the occasion of the first hearing of the Subcommittee on the Panama Canal/Outer Continental Shelf in the 101st Congress. This occasion kindles nostalgic memories of my first experiences as chairman of this subcommittee. I trust you will find the chairmanship as challenging and rewarding as I eventually did.

To be sure, there are challenges ahead. The political troubles of the Republic of Panama do have an impact on the Panama Canal. Like any organization that strives for efficiency and effectiveness, the Panama Canal is dependent upon its people for success. The loyal and dedicated employees of the Panama Canal Commission live in an Orwellian world where armed thugs rule the streets and poison the relationship many nations, including the United States, have long enjoyed with the Panamanian people. The Panama Canal, while attempting to remain the calm eye of the Panama storm, is nonetheless caught up in the tumultuous whirlwinds which attack the once-peaceful and prosperous shores of the Republic of Panama.

The brunt of the storm has been felt by Panamanian people and the Panama Canal employees. During the 100th Congress, Ranking Republican Member Jack Fields of Texas and I conducted both public hearings and closed confidential briefings concerning the harassment, injury and potential for future harm to Americans who are employed by the Panama Canal Commission. There is still reason to be concerned. Last year, during food shortages and following the detention of two American employees of the Commission while they were shopping for food in Panamanian markets, access to military shoppettes (convenience stores) was granted to those American employees who do not otherwise have access to military commissaries. Authority for these employees to use shoppettes should continue in force.

Last June, the Panamanian Minister of Finance and the Customs Director notified U.S. officials that they view this use of shoppettes as a treaty violation and the goods purchased therein by "unauthorized personnel" to be contraband. They relayed their intent to "raid the quarters" of PCC employees suspected of having goods purchased at military shoppettes, to confiscate the goods and levy fines against these Americans. Although to date no action has been taken to carry out the threat, there must be continued vigilance and a commitment on the part of the U.S. officials to protect the lives and property of these Americans.

Now, the Noriega regime is threatening civil action against Panama Canal Commission employees for failure to pay taxes. In fact, their tax payments are being placed into an escrow account pursuant to a March, 1988 executive order issued by former President Ronald Reagan. Here, too, there must be a commitment on the part of the United States to protect its employees—in this instance, they must be protected from financial harm which might result from decisions this nation has made.

Today's business, the authorization of Commission expenditures, is also an important matter. Although the House approved legislation last year to authorize expenditures under the Commission's revolving fund, the measure was not acted upon by the Senate. The last House bill, H.R. 4449, differed from the Administration's proposed bill, in that it set specific authorization levels for operating and capital expenditures. Both the Department of State and the Panama Canal Commission told this Subcommittee that they believed such specificity was not necessary.

However, it was then the view of the Subcommittee that specific authorization levels were necessary to implement the Subcommittee's policy decisions. I still hold that view. The revolving fund was established principally to prevent appropriation cuts under Gramm-Rudman-Hollings procedures from resulting in profit payments to Panama, not to free Panama Canal Commission operations from congressional oversight or budgetary scrutiny and approval.

The Subcommittee also considered establishment of a fund to provide for contingent liabilities for workmen's compensation after December 31, 1999. Regrettably, the Reagan Administration was unable to timely work out an agreement between the Department of Labor, the Panama Canal Commission and the Office of Management and Budget over language to create the special fund in the U.S. Treasury for this purpose. I am pleased that the Subcommittee plans to consider this potential liability and, by subsequently enacting appropriate legislation, protect U.S. taxpayers against having to pay future claims out of the general fund.

There are many other issues that could be discussed at this time, but they all pale compared to the need for a new U.S. policy initiative to help restore democracy and normal relations with Panama. It is my most fervent hope that this year will be a new beginning in Panama. Yet, one thing remains clear, the continuation of Manuel Noriega in office is the greatest obstacle to normalized relations between the United States and the Republic of Panama.

Again, Mr. Dyson, you have my best wishes for a successful term as chairman of the Panama Canal/OCS Subcommittee. Although I was unable to select the Subcommittee as a permanent assignment in this Congress, I have an abiding interest in the work of the Subcommittee and offer whatever assistance I can provide to you and the Members.

Mr. Dyson. And at this point, Mr. Gianelli, Mr. Chairman, I think we would have you start off, and if you have a lengthy statement we can ask unanimous consent to have that placed in the record, if you would like to summarize it. As you know, most of the committee members have a number of questions that they would probably like to ask, and like to use that time for that purpose. Go ahead.

STATEMENT OF WILLIAM R. GIANELLI, CHAIRMAN OF THE BOARD OF DIRECTORS, PANAMA CANAL COMMISSION, AND DENNIS P. McAULIFFE, ADMINISTRATOR, PANAMA CANAL COMMISSION; ACCOMPANIED BY MICHAEL RHODE, SECRETARY OF THE COMMISSION

Mr. Gianelli. Thank you very much, Mr. Chairman, and members of the subcommittee.

Let me say, at the outset, I appreciate the comments that have been made this morning by members of the subcommittee with respect to our problems in Panama. These days have been difficult for the Commission, and we appreciate the time that you give to our problems.

INTRODUCTION

Mr. Chairman, members of the subcommittee, I am William R. Gianelli, the Chairman of the Board of the Panama Canal Commission.

I am pleased to appear before you today to present our Fiscal Year 1990 budget programs and also to report to you on the more significant developments and accomplishments pertaining to the Panama Canal enterprise.

Participating with me in this hearing is Mr. D.P. McAuliffe, on my left, the Administrator of the Commission, and my assistant, and Secretary of the Commission, Mr. Michael Rhode, on my right. With your approval, as you indicated, Mr. Chairman, I will summarize my statement, and with your permission, submit the entire statement for the record.

Mr. DYSON. I will ask unanimous consent at this point to have it included in the record.

Mr. GIANELLI. Thank you, Mr. Chairman.

Let me begin by taking this opportunity to express my appreciation to this subcommittee for the valuable assistance it has provided over the years to the Panama Canal Commission. Since I have been Chairman of the Commission's Board of Directors over these last 8 years, it has been a pleasure to work with your subcommittee.

OPERATING ENVIRONMENT

This coming September 30, the Panama Canal Commission will have completed 10 years of operation under the terms of the 1977 treaty with the Republic of Panama. We have been faced with many difficult challenges which, for the most part, have been a direct result of the implementation of the treaty's provisions, while more recently, others were spawned from the political crisis that began about a year ago and is ongoing today in Panama. These events are unprecedented and continue to pose serious problems for the efficient operation of the Canal.I believe some members of the subcommittee have already recognized the seriousness of our situation.

This situation is far from normal, and probably will not improve further until the differences between the United States and the Republic of Panama are resolved.

Our greatest concern is preserving the morale and well-being of the Canal work force. Most of the problems being faced by our employees can be traced to the response of the Noriega-Solis-Palma regime to the economic sanctions imposed by the United States. For example, monies withheld from Panamanian employees for income and education taxes are not being paid to the local authorities. Instead, they are being deposited into an escrow account established for that purpose. As a consequence, many of our Panamanian employees are now facing legal actions by the Panamanian Government which could lead—and I might say have led—to the confiscation of automobiles, and will perhaps lead to the confiscation

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of their homes and personal bank accounts, as well. The denial of vehicle license plates and documents necessary to travel outside the country, and to conduct personal business are also a problem.

BOARD ACTIVITIES

Concerning our Panama Canal Commission Board activities, over the course of the last fiscal year, our Panamanian Board members did not attend a Board meeting from January of 1988 until the most recent meeting which was held on January 11 of this year. The Panamanian delegation to the Board of Directors arrived at the January meeting, as scheduled. However, because Mr. Juan Sosa, the recognized Panamanian Ambassador to the United States was present, they elected to leave in protest and did not participate in the proceedings of our Board meeting in January.

I would like to note that the presence of the five United States' members of the Board of Directors constitute a quorum. As a result, the essential business of the Panama Canal Commission has been conducted on an uninterrupted basis, despite the Panamanian Board members' boycott of the meetings.

SIGNIFICANT TREATY EVENTS

A few comments on significant treaty events. One of the more significant events facing the Commission this coming year will be the naming of a Panamanian national to the position of Administrator for the Commission. The treaty provides that the Republic of Panama is to propose to the United States the individual for the Administrator's position for appointment by the United States. The legislation implementing the treaty also requires that the individual thus nominated be formally appointed by the President of the United States, with the advice and the consent of our U.S. Senate. However, under the present political environment, we foresee some difficulty in this changeover occurring as required by the treaty.

ANTICIPATED TOLL RATE INCREASE

Moving on to our anticipated toll rate increase. As the Commission's report to the subcommittee indicated last year, we forecasted a need for a toll rate increase at the start of Fiscal Year 1989. Realizing the need to keep Canal costs competitive, while still recovering the cost of operations, we monitored the situation very closely as better information became available. In the subsequent round of forecasting, a slightly improved revenue picture was projected which, when combined with certain cost deferrals, would result in the Commission ending the year with a small loss of about $2.5 million. On the basis of these projections, the Commission deferred the toll rate increase that was originally anticipated for Fiscal Year 1989.

Looking ahead to Fiscal Year 1990, however, we anticipate that the Commission will no longer be able to continue to absorb the effects of rising prices in the face of marginal traffic growth. Accordingly, we are projecting the implementation of a toll rate increase effective October 1, 1989. Every effort will be made to keep the rate increase to a minimum and still achieve our legal mandate of operating the Canal on a break-even basis at no cost to the U.S. taxpayer.

Budget Programs

With respect to our budget programs, Mr. Chairman, while Mr. McAuliffe will address in more detail the budget programs that are planned for Fiscal Year 1990, I want to affirm that the programs for that year are essential, and are in accord with the program of the President.

Conclusion

In conclusion, Mr. Chairman, and members of the subcommittee, I would like to again reiterate my appreciation to you and this committee for the opportunity to appear before you today. I recommend that Mr. McAuliffe be allowed to present his statement, and then we both will be available for answering such questions that the subcommittee may have of us both. Thank you very much.

[The statement of Mr. Gianelli can be found at the end of hearing.]

Mr. Dyson. Well, I think that is exactly what we plan to do since we do not have, you know, a large subcommittee. Phil, why don't you go on, and then we will do exactly that.

STATEMENT OF MR. McAULIFFE

Mr. McAuliffe. Thank you, Mr. Chairman, and members of the subcommittee. I am Dennis Philip McAuliffe, the Administrator of the Panama Canal Commission. I propose to enter my full statement into the record and to summarize it at this time.

Milestone

This year, we take an extra measure of pride in our report to you, as in 1989, we will be celebrating the 75th anniversary of the opening of the Panama Canal. Since 1914, the Panama Canal has been open to world commerce, providing safe and efficient service to its customers. This record of service is an accomplishment that few Government enterprises can match in today's business environment. All who have been involved in this operation over these years can be extremely proud of the role that they have played in that achievement. I join with Mr. Gianelli in recognizing the vital importance of this subcommittee, and its staff, in achieving this milestone.

Overview Fiscal Year 1988

Mr. Gianelli has touched upon many of the chaotic events of this past year. With respect to the Fiscal Year 1988 financial results, despite some unanticipated costs associated with the political unrest during the year, as well as a very erratic tolls performance, we were able to come close to the projected break-even operation for the year.

The final operating results showed a moderate loss of approximately $1.8 million. As provided for in the Panama Canal Act, this loss will be carried forward for future recovery.

OUTLOOK FOR FISCAL YEAR 1989

With respect to Fiscal Year 1989, the Commission's budget justification book before you projects a moderate loss of $2.5 million, reflecting the Commission's decision to defer the toll-rate increase initially planned for that year. However, it now looks as if tolls and other revenues will come under the levels projected, resulting in a somewhat larger loss than anticipated. As you know, all losses are carried forward for recovery in future years.

FISCAL YEAR 1990 OPERATIONS

Looking to Fiscal Year 1990, the traffic outlook reflects a modest decline in the number of transits and toll revenues from the levels shown for Fiscal Year 1989. This decline is predicated on the anticipated downturn in the automobile trade, combined with the slowdown in the growth rate of container traffic, and weakness in certain key bulk trades. This anticipated lower but stable revenue outlook, coupled with rising inflation, are the principal reasons why a toll rate increase is required starting in Fiscal Year 1990. I believe that it is important to point out that if the Commission increases toll rates in Fiscal Year 1990, as planned, there would have been no price increases over a period of almost 7 years. This represents an extraordinary level of price stability to our customers.

With respect to the Commission's authorization, we are requesting that the Committee authorize total expenditures within the limit of funds and borrowing authority available to it as a revolving fund entity.

CAPITAL PROGRAM

With respect to the capital program for Fiscal Year 1990, we are projecting a requirement for $32 million for new capital projects. As in past years, the greatest portion of the program is devoted to essential transit facilities and equipment.

INCREASED PANAMANIAN PARTICIPATION

Steady progress has been made in our efforts to meet the treaty mandate of increased Panamanian participation in the Canal's operation. In addition to the recent appointment of a Panamanian to the position of Personnel Director, several of our largest operating organizations are now headed by Panamanians. These include our locks and dredging operations, and the Canal services operation which has responsibility for all tug, launch, and linehandler functions on the Canal. This increasing participation of qualified Panamanians serving in key positions has served to strengthen our relations with our Panamanian employees and the community at large.

CONCLUSION

Before concluding my remarks on the Fiscal Year 1990 budget, I would like to point out that while the Commission has experienced a very unusual and demanding year, resulting principally from the political difficulties within the Republic of Panama, the Canal has remained open, providing safe and efficient service to all Canal customers. This fact is due primarily to the dedication and professionalism of Commission employees—U.S., Panamanian, and third-country nationals—many of whom have been directly affected by these events. I join Mr. Gianelli in commending the Commission work force for its outstanding performance, and I also thank the members of the subcommittee for that recognition.

As I conclude my last year as the only United States' Administrator of the Panama Canal Commission, I would like to take this opportunity to express my deep appreciation to the members and staff of this Committee for the support and assistance, and many courtesies you have given me over the years.

That concludes my prepared remarks. I shall be pleased to join Mr. Gianelli in answering any questions you or other members of the subcommittee may have.

[The statement of Mr. McAuliffe can be found at end of hearing.]

Mr. Dyson. Thank you both for your testimony today, and I would ask unanimous consent to have General McAuliffe's prepared statement be a part of the record.

I want to direct my first question to you, Phil. I do want to applaud you all again. You have had one heck of a year down there, and I think the morale has not suffered much, and that is directly attributable to the actions taken by both the Commission and the Administrator.

My first concern—and I do not know whether you remember this, Phil—but during the first trip I made there, many years ago, I asked about the situation when the turnover in Administrators would occur. As you know, that happens next year with the stipulation in the treaty, that the Administrator be a Panamanian national. The deputy will be a U.S. citizen. If I am not mistaken, the deputy today is a Panamanian, and so those roles will be reversed.

Election Impact on Canal

The upcoming elections, if they do not produce a Government that we consider legitimate, or at least recognizable by us, or, for any reason we have not normalized our relationship with Panama, what impact is that going to have on how the Commission functions, and the role of the Administrator? Now that is my question. Let me add to it, what I think I just heard you say. Did you say this is your last year, Phil?

Mr. McAuliffe. That is correct.

Mr. Dyson. Does this mean you will not switch the role? You would not become the deputy?

Mr. McAuliffe. That would not be my intention, Mr. Chairman. My intention is to serve out the year, and I hope that will be accomplished. In order to not add to the instability, since the Administrator is supposed to become a Panamanian and the Deputy Administrator a U.S. citizen, I Intend to conclude my career with the Canal at that point.

Mr. Dyson. Are you subject to Senate confirmation?

Mr. Gianelli. Mr. Chairman, could I make a couple of comments before you proceed?

Mr. Dyson. Sure.

Mr. GIANELLI. I have been Chairman of the Commission's Board of Directors now for 8 years, and I want to reiterate the appreciation of the Commission for the work that General McAuliffe has accomplished. I think without his presence in Panama, and except for the way in which he has managed the enterprise, we would have had many, many more problems. The Commission, I am sure, is going to miss his expertise very much next year.

But let me move on to the question that you were alluding to, and that is, what happens on January 1, 1990, if we do not have a Panamanian Administrator who has been confirmed by our U.S. Senate.

The Commission's Board, unlike the Administrator, will not change. The Board will remain in U.S. control until the year 2000, and, when I say "remain in U.S. control," that means five U.S. members as compared with four Panamanian members will remain on the Board.

And whether or not I continue as the Chairman come January 1 of this next year, it would be the Commission's intention to have a United States Deputy Administrator in place by that time. The Commission then would probably have him act as the Administrator until such time as a Panamanian acceptable to our Government was approved for that position. That probably would be the sequence of events, if a Panamanian administrator is not confirmed by the Senate by January 1 of this coming year.

POTENTIAL OUTLOOK FOR ELECTION

Mr. DYSON. I have a set of questions that have been prepared for me by our very able staff, and we are going to get to most of them today. But I had an opportunity, not too long ago, to attend a meeting with General Woerner, at the request of some of the members of the Armed Services Committee, and in our discussion with him as to what kind of a situation we may face down there, and what kind of changes we could expect, the general said—I think his words were—"It doesn't really matter a whole lot whether you get Noriega out or not; you'll get another thug just like him."

That is a terrible thing, to quote somebody when, you know, they are not here, but I think that I have seen that printed also elsewhere and attributable to General Woerner.

What kind of situation are we going to face down there? I mean, are the elections a sham? We just passed on a suspension calendar—oh, I do not remember, maybe it was Tuesday of this week—we are sending a delegation, I believe, to Panama, or some kind of a resolution of concern about the elections down there.

What is going to happen, and what is that going to mean to the way the Commission operates?

Mr. GIANELLI. Let me respond at least partially, if I can, Mr. Chairman. First of all, I suspect that a better response could be obtained from someone—for example—in the Department of State, who keeps a little closer track to the political situation than we do.

But let me say that I think the election on May 7th is very critical in terms of the future relationship between the two countries, certainly as far as our Commission's operation is concerned.

We look forward to this election and hope—I am sure the new Administration does, too—that the election will be an honest one. There are two primary slates. There is the so-called Noriega slate, and a slate of the opposition. I think there is some feeling, that if the election is allowed to proceed in a legitimate way, that there is a very good chance that the opposition party may be elected to the important positions in the government. If that happens, I would expect that some of our problems with the Republic of Panama could be resolved. But as of this time, I do not think anybody knows exactly what is going to happen. There are lots of rumors circulating in Panama. But I think it is our hope, and the hope of the Administration, that the election will be conducted in an honest manner so that we can get a true representation from the people of Panama.

CARGO DIVERSION

Mr. DYSON. Well, Mr. Gianelli, I certainly hope that you are right. What concerns me is that I am not quite as optimistic, and what even more concerns me is that if that does not turn out, that scenario does not come to pass, we will not have a Phil McAuliffe down there, also, as director. But again, that is just an aside.

I have another question on cargo diversion. Several groups have done some studies on U.S. trade with Pacific nations to examine the effect that this growing trade has had on U.S. ports. The consensus is that the lower cost of land-based multi-modal transportation systems has reduced the share of Pacific cargo now being shipped directly to Eastern and Gulf Coast seaports.

What I am going to ask you is: Do you see anything in some of these emerging trade patterns that indicates there may be a larger role for the Canal in the Far Eastern trade? I do not think I need to tell you what our concern is here. If I did not ask this question, I know my colleague from Baltimore would have. We have a large port in Baltimore, and this diversion has become somewhat of a concern to those administrators.

Mr. GIANELLI. Yes. Let me partly respond to that, and Mr. McAuliffe may want to add to my comments. Last year, the Commission's Board of Directors visited the Port of Long Beach where there are large facilities designed to handle cargo to be shipped over the so-called land bridge. It is quite an interesting operation.

I do not think we know fully, at this time, to what extent the diversion of cargo to the intermodal system impacts on the Canal. But I know, for example, that the Port of Baltimore is concerned about this growing trend.

Certainly, the U.S. intermodal system is competing with the all-water route via the Panama Canal, and continues to erode the Canal's share of the container business between the U.S. East Coast and the Far East. The rate of growth of the Canal's container trade is thus not expected to continue at the same high levels of the past several years.

In the case of Baltimore, our estimates indicate that only about 4.4 million tons, or 17.8 percent of the port's total foreign commerce would use trade routes served by the Canal. Of that tonnage, nearly 2 million tons of coal are bypassing the Canal via the Cape of Good Hope.

So, I think in general, the Commission is concerned about the impact the intermodal systems and other transportation alternatives have on the Canal. We, however, still believe there will be a need for the Canal and its facilities into the future. But it means that we are going to have to continue to remain vigilant about making certain that the Canal is as competitive as possible with these other modes of transportation.

Mr. DYSON. At this point I am going to ask my two colleagues if they have any questions, and then I would like to come back, and finish up with a group. First of all, our Ranking Minority members, Mrs. Bentley.

CANAL LIMITATIONS

Mrs. BENTLEY. Thank you, Mr. Chairman. Piggybacking on the discussion just now between you, Mr. Gianelli, and our Chairman—and incidentally, welcome. I have been happy to work with Mr. Gianelli, off and on, over the past 8 years on a number of things.

When you say the ships are going around by Cape of Good Hope, is it the size of the Canal that is limiting the movements of coal through there?

Mr. GIANELLI. Well, the Canal definitely has some size limitations, as you indicated, Mrs. Bentley, but I think some of the larger ships—supertankers and bulk carriers—would normally take that route anyway. Whether or not that is the sole reason, I do not think we really know.

CANAL OPERATING CHARACTERISTICS

Mrs. BENTLEY. I think the Panamax configuration is a vessel that roughly is about 93,000 tons, and I think many of your larger carriers, or bulk carriers today hit well over 100,000 tons.

The other thing is, what percentage of the 24-hour period of time is the Canal busy? Are there long lapses of time?

Mr. MCAULIFFE. The Canal operates 24 hours a day. There are some restrictions with respect to direction of traffic that are in effect during the daylight hours. That is because of the navigational restrictions in the Gaillard Cut which is situated on the southern portion of the Canal. The transit of large-beamed ships, the Panamax ships that you have mentioned, is restricted to one-way traffic through Gaillard Cut. So, those ships must travel during daylight hours. We do have a navigational restriction, but the fact of it is, the Canal is busy and it is operational 24 hours a day. There are essentially no gaps per se in our operation for handling ship traffic.

Mrs. BENTLEY. Then my next question is, could you handle much more business?

Mr. MCAULIFFE. Yes. We are operating below our capacity at the present time simply because of the traffic levels. We have the capacity to move more of the Panamax-size ships each day, and certainly, to move more than the average numbers of ships that we have been experiencing over the last several years.

TRANSIT CAPABILITY

Mrs. **BENTLEY**. Now we have been having some minor problems with the fourth generation container ships that are now plying the waters between Europe, and I guess the whole world, and coming into Baltimore, difficulties through the C&D Canal, which has a 450-foot width and a 35-foot depth. This is because these ships are just so gigantic. I mean, there are a couple of shoals that we have to get out of there so they will not get hung up.

Would these ships, these giant container ships, be able to transit the Panama Canal?

Mr. **MCAULIFFE**. The latest generation of container ships—I believe the American President Line has several under construction—are going to be too large to use the Canal. I believe a European steamship firm is also contracting for some larger-size container ships which also will be too large for the Canal.

Until the point when those vessels come on line, most new constructions including the new generation of Maersk Line vessels are indeed capable of using the Canal. I am now talking with respect to container ships.

HIGH SPEED LAUNCHES

Mrs. **BENTLEY**. Those that are now plying the seas.

Mr. **MCAULIFFE**. Correct.

Mrs. **BENTLEY**. Those that are now plying could do it. All right. On another subject, going to the matter of personnel, I understand that several high-speed launches will be used to move personnel through the Canal because of the land transportation problems.

Are these new launches, and will these eliminate the problems they have there?

Mr. **MCAULIFFE**. We are expecting the delivery, later this year, of two high-speed launches with capacity of about 40 to 45 people. We already have three launches, high-speed, of 12-passenger capacity, that are presently in service, and are used primarily to transport pilots and special crews to and from ships.

I have felt the need to develop a water transportation alternative for those employees who must be able to cross the Isthmus of Panama every day in order to get to work, and perform their jobs. This has become necessary because the roads have become so bad, and we are concerned about the safety of our personnel. I have been experimenting with and do intend to increase substantially the transportation number of Commission personnel who must, for our purposes, be able to get from one side of the Isthmus to another.

ROAD CONDITION

Mrs. **BENTLEY**. When you say the roads are so bad, is that because they have not been maintained, are not being taken care of, or, are they dangerous?

Mr. **MCAULIFFE**. I believe it is all of those reasons, Mrs. Bentley. The roads are not being maintained. The access road that we use from the heart of the Canal area on the Pacific side to the Trans-Isthmian Highway is in deplorable shape, and at certain times of year, particularly the height of the rainy season, it is downright dangerous.

The TransIsthmian Highway itself has been receiving some maintenance, but the traffic load on that highway is considerable which presents a safety problem. There are occasional severe accidents on it. It is only a two-lane road, and it is one most people, including our employees, do not have an ease of mind, so to speak, to travel on.

Mrs. BENTLEY. The Chairman said a little bit ago, that he did not agree with those of who us were saying we should abrogate the Panama Canal treaty.

Mr. DYSON. You heard me well.

WHO IS COMPLYING WITH THE TREATY?

Mrs. BENTLEY. I heard you well. I disagree with you.

It seems to me that we are the only ones who believe that the treaties are sacrosanct, and that what we are seeing is a unilateral enforcement of those treaties by the United States. Do you see that in the same light, or, how do you respond?

Mr. GIANELLI. Let me partially respond, Mrs. Bentley. I do not think we have ever had a Commission Board of Director's meeting in which the Panamanian representatives have indicated that they believe that we are complying with the terms of the treaty. They have been very critical in terms of their accusations against the United States. So I am not quite sure that your early premise, that we are the only ones complying with the treaty is embraced by all. At least in the Panamanian's view that certainly is not the case.

We have problems with them in many areas, and I suspect that some of those problems are going to surface as we move toward filling the Administrator's position with a Panamanian national.

For example, the Panamanians have made it very clear that they do not recognize the public law which was passed by the Congress to implement the provisions of the treaty. That law contains a provision, for example, that provides for Senate confirmation of the individual nominated for Administrator, which the Panamanians object to. I think my own perception of what has been happening is that the treaties were entered into without each side fully understanding its implications, and that their interpretations of parts of the treaty were different, and that certain issues were never fully resolved before the treaty went into effect.

POTENTIAL OUTLOOK

Mrs. BENTLEY. Do you think that could lead to, you know, the whole thing just blowing up?

Mr. GIANELLI. Well, I do not know. I suspect that Congress, as the Chairman indicated, will be addressing that problem very much in the next year or two. We have been progressing under the terms of the treaty, in terms of moving in the direction the treaty intended. Let me give you a significant example.

The Commission is charged under the treaty to train Panamanians to be able to take over the operation of the Canal in the year 2000. We have been pursuing that objective very diligently, and we now have more Panamanians on board in key positions than we had, for example, a few years ago. We are very dependent, now, upon our Panamanian employees, which we have trained, to operate the Canal.

So I think that as we consider anything that might be done with respect to the treaties, we need to recognize some of the present facts and the realities that exist concerning the Canal Operation.

Employee Harassment

Mrs. Bentley. Are any of those employees who have moved into these middle-management positions—are any of those harassed by the other side, as are Americans down there?

Mr. Gianelli. Well, yes, one of the big harassments now, for example, relates to the inability of our Panamanian employees to get license plates for their cars. The present arrangement, where the funds that are withheld from our employees' salaries for Panamanian income taxes are being deposited into an account—escrow, I think members of this committee know about this situation—has resulted in the Solis-Palma regime taking steps to confiscate Panamanian employees' automobiles for nonpayment of their taxes.

We have had three such cars confiscated from our Panamanian employees in the last few days, because of lack of payment of Panamanian income taxes. Yet that tax is withheld by the Commission and placed in escrow by the decisions of our Government.

So I guess, in short, Mrs. Bentley, the answer to your question is yes, the Solis-Palma regime is, in our view, harassing the Panamanian employees we need to operate the Canal.

Alternative Plans

Mrs. Bentley. Do you have other alternative plans if the employees are refused license plates and cannot use their vehicles?

Mr. Gianelli. Mr. McAuliffe can respond to this more specifically, but, yes, some of our employees are having difficulty getting to work. That is because if they cannot use their automobiles, they cannot get to and from work. In response, Mr. McAuliffe instituted a system of transportation, to assist employees as much as possible in getting to and from the work site and their homes. However, the logistics involved began to present some real problems as the transportation requirements expanded because our Panamanian employees are scattered all over the Isthmus.

It was pretty hard to develop a system of bringing our employees to work from their home site, so central pich-up points were established. I think Mr. McAuliffe has made great progress in trying to have the employees brought to the work site, but it has not been without problem to the Commission.

Mrs. Bentley. Mr. Chairman, I have a number of other questions I would like to submit to them, so I do not take any more time now, and they can respond to them in writing.

And I also would like to recognize Ambassador Juan Sosa who has just joined us in the audience. Thank you.

Mr. Dyson. Thank you, Mrs. Bentley. Those questions will be submitted to the Commission and the Administrator, and if you will respond to them.

I would like to call on my colleague from the State of Chicago, Mr. Lipinski.

PANAMA ELECTION

Mr. **LIPINSKI.** Thank you very much, Mr. Chairman. I am happy. You got it right this time.

Gentlemen, the first question I have—and I only have a couple of questions—you mentioned in the elections there are two slates of candidates, and one the Noriega slate. I realize that you would prefer to have the State Department comment upon this, and I certainly do not want you to say anything that might be embarrassing to anyone.

But is the other slate of candidates a real independent slate of candidates, or do we have candidates for both slates controlled by General Noriega, to the best of your knowledge?

Mr. **GIANELLI.** You are talking about the opposition slate. I think from all information we can gather, the opposition slate is truly an opposition slate.

Mr. **LIPINSKI.** So if somehow the opposition slate manages to win, then we would not have to, at least based upon the results of the election, contend with General Noriega any longer?

Mr. **GIANELLI.** I think if the results of the election were favorable, I think the United States would be in a position to talk to the new government, even though it does not take office until the 1st of September. I think we would be in a position to move toward resolving some of the problems that exist between the two countries, particularly as far as the Canal is concerned.

THIRD-COUNTRY NATIONALS

Mr. **LIPINSKI.** Is there anything that you feel—this harassment of the employees, the American employees and the Panamanian employees, and I am quite sure, the third group of people you have mentioned—before I ask that question. You have got Panamanians, you have Americans working down there. The other people who work in the Canal Zone there, what countries do they come from? The third group of people?

Mr. **GIANELLI.** The third nation——

Mr. **MCAULIFFE.** We have a relatively small number of third-country nationals. These are citizens of other countries—Great Britain, Germany, and so on—who have been working for the Panama Canal, some for many, many years, and they of course are residing in Panama but have not yet become citizens of Panama. As I mentioned, it is a very small number, but there are certain treaty provisions that apply to them, which we honor.

OPTIONS TO HARASSMENT

Mr. **LIPINSKI.** Now in regards to those three groups of employees, is there anything that either one of you believe would be possible for the United States Government to do at the present time to alleviate some of this harassment that is going on?

Mr. **GIANELLI.** The harassment that is taking place is being initiated, of course, by the Solis-Palma regime, and I guess that there is no end to the extent to which they can harass our employees by different means.

The present harassment of course has been centered around the license plate issue, and the lack of what is called a "paz y salvo." A paz y salvo is a document which Panamanian citizens need to have to prove they are not delinquent in their taxes. The paz y salvo gives them an official status to travel in and out of the country, and to transact other business such as to obtain their license plates. So, this seems to be the thing that the Solis-Palma regime is pursuing with the Commission employees in terms of harassment. I am sure there are other areas, if they decide to pursue them, which could be construed as harassment, as well.

Mr. LIPINSKI. I really was not asking what they could do to harass the employees. I was asking if there was anything our Government, the United States Government, could do to alleviate some of these problems?

Mr. GIANELLI. The Solis-Palma regime is now saying if the United States Government would just pay the income taxes that were withheld and are due, the Government of Panama, that action would allow the employees to get their license plates. But the problem goes a little deeper than perhaps it might seem on the surface, because, on the other hand, the Panamanian Government has not paid the United States certain monies that are due the United States. For example, the Commission is responsible for providing potable water for a good portion of Panama City, as well as other services; and those costs, I think in the last year, have amounted to somewhere around $11 or $12 million. So, they accuse the United States of withholding payments to Panama. Well, Panama, too has been withholding payment of certain amounts due the Commission. However, the Commission has been collecting the amounts due it through offset against the treaty payments.

So, I guess my overall view would be, that until the two Governments are able to resolve their problems and there is ahead of government in Panama that the United States can recognize, it is going to be difficult for us to do some of the things that might ease the burden on our employees.

Mr. MCAULIFFE. May I add something?

Mr. LIPINSKI. Yes.

Mr. MCAULIFFE. It is not possible to lay out a specific set of measures that might be helpful right now. The initiative lies with Noriega and the Solis-Palma regime. In small ways, we are trying to help these employees who are being confronted and hurt by the measures of the Solis-Palma regime. As Mr. Gianelli indicated, I have had to get into the bus transportation business. We have contracted five different bus companies to help pick up employees at various parts of the City of Panama, and similarly, on the Atlantic side, to bring them to work sites and to return them to those pickup points at the conclusion of a work day. That is costing the Commission, at the present time, some $13,000 a day.

We now have three of our senior Panamanian employees whose cars have been confiscated. We also have four other senior Panamanian employees whose bank accounts have been frozen. It is my hope to be able to reimburse those employees for property taken away from them, and to deduct the costs of those expenses, as well as the costs of running buses, and any other incidental expenses caused by this turbulence, from the payments that we normally made to Panama. I believe that it would be important for this Committee to recognize the validity of that approach; and accordingly, I would like to submit a statement for the record regarding that offset procedure.

[The statement follows:]

OFFSETTING EXTRAORDINARY COSTS INCURRED BY THE PANAMA CANAL COMMISSION DUE TO ADVERSE ACTIONS TAKEN BY THE NORIEGA/SOLIS-PALMA REGIME

The regime in Panama, headed by General Noriega and Minister Solis-Palma, is currently enforcing measures which would effectively prevent Panamanian employees of the Panama Canal Commission from using their private vehicles for any purpose, including their travel to and from their job sites at the Canal. These measures could have a serious impact on the efficiency and operation of the Canal.

In an initial effort to deal with the present situation, the Commission has implemented a shuttlebus service between the Canal and various points in the terminal cities of Panama and Colon to transport employees to and from their work sites. Should these efforts prove insufficient, it is my intention to initiate such other measures as are within applicable legal constraints to enable Canal employees to get to and from work sites. The bus service now contracted costs some $13,000 per day.

In addition, in an effort to collect income and educational taxes directly from the Commission's Panamanian workers, the regime has threatened to freeze their bank accounts and confiscate their automobiles and other properties, even though all such taxes have been deducted from their salaries and are being held in escrow for the rightful Government of Panama. In fact, the regime last week started confiscating the automobiles of certain of these employees and freezing the bank accounts of others. Here, again, the Commission is prepared to provide certain reimbursements to be made in the cases of confiscated property of employees. For example, the Commission has announced that a reimbursement of $154 per week equivalent to rental car cost will be made to the affected employees.

It is the Commission's plan to pursue having all costs incurred by the Commission in support of our Panamanian employees, including reimbursements for confiscated property, deducted from payments otherwise due Panama under the Treaty documents. The Commission seeks the Committee's support in the reimbursement actions it is taking with respect to the costs it is incurring in addressing these problems.

CARGO DIVERSION

Mr. **LIPINSKI**. I was going to ask you where the reimbursement was going to come from, when you were talking about the buses, and the other things that you have done.

Certainly I agree with you, that is the way it should be done. It should not cost anyone other than the Panamanian Government of General Noriega for us having to do these kind of things.

To switch gears a little bit, you talked about the Canal not running at full capacity, and you talked about coal barges going around the southern route, and you talked about some of the container ships being too large to get through the Canal.

Then you mentioned Long Beach. I assume what that meant was that there are ships coming into Long Beach, and then they are being trucked, or trained overland through the Midwest and through the East?

Mr. **GIANELLI**. Yes.

Mr. **LIPINSKI**. Well, based upon all of that going on, can you foresee, some time in the future, where the Canal will really be extremely underutilized?

Mr. GIANELLI. Well, there have been compensating elements for some of those losses, and I think the future is pretty hard to predict. We think, as I indicated earlier, that there still will be considerable demand for the Canal as a commercial transportation artery, in addition to its importance from a national defense standpoint.

So, we do not anticipate a Canal which will be underutilized during the U.S. control and administration.

INCREASE CANAL CAPACITY

Mr. LIPINSKI. I am not that familiar with all the details of it. Is it feasible, at all, to make the Canal larger, to accommodate some of these larger vessels?

Mr. GIANELLI. Let me comment on that, and then Mr. McAuliffe can add to my comments. There are two programs that relate to that general subject. One of them is a program which the Commission has had under way for several years, and it is what we call the possible widening of the Gaillard Cut. The Cut is that portion of the Canal that goes through the Continental Divide. We are just about to complete our report on this subject. The study addresses all the factors involved in widening the Canal at one of its narrowest points, to allow a few more large ships to transit each day.

That does not speak to the issue of overall enlargement of the Canal. It only relates to improving some of the narrower portions of the Canal so larger ships can transit on a regular basis.

The other program that is underway, which is actually provided by the treaty, is a 5-year, $20-million study to look at alternatives to the Panama Canal. That study was initiated a few years ago, but it is pretty much on hold now because of the political situation. There was an agreement entered into by the Governments of Panama, Japan, and the United States for that 5-year, $20-million study, to be funded equally by the three countries.

It is contemplated that the study would be completed before the treaty expires, more specifically, before the year 2000 comes along. At the present time, the study is not being pursued because of the political situation. the purpose of the study is to look at the various transportation alternatives to the existing Panama Canal, including a replacement facility which might be able to handle larger ships than can now be accommodated be the present canal.

Could I respond to one other point that you mentioned, Mr. Lipinski, because I think it might be of interest.

You asked about funds which are on deposit in the escrow account. We have prepared a tabulation of the payments to Panama that have been deposited in the escrow account as of March 1, 1989, and I think the members of the subcommittee might be interested in that because it gives you an up-to-date reading on the total amount of money that has been deposited in the escrow account with the Federal Reserve Bank of New York, United States, as of March 1st.

Mr. LIPINSKI. I am sure we would all be very much interested in that.

Mr. MCAULIFFE. Could I——

Mr. LIPINSKI. Yes, General.

Mr. **McAuliffe**. I wanted to make a comment with respect to Canal capacity. On average, the full capacity of the Canal is not presently being used. On a given day, we may have 35 or 37 ocean-going ships transiting the Canal. Our capacity is some 42 to 44 ships per day, depending on the mix of Panamax ships versus smaller ships. But every once in a while we will have a surge of ships, unpredictable, where we will have 42, 43, 44, or 45 ships arriving all in one day. We need that additional capacity so that we do not build up a long delay for ships wanting to use the Canal.

So the additional capacity is needed to continue the efficient smooth operation of the Canal throughout the year.

Mr. **Lipinski**. Thank you very much, gentlemen.

Mr. Chairman, those are all the questions I have at the present time. Thank you.

Escrow Account

Mr. **Dyson**. Thank you, Mr. Lipinski. You asked for this, I believe, or at least in response to a question, about the escrow payments made. I would ask that that be a part of the record, and ask unanimous consent to have it included.

[The Panama Canal Commission payments to Panama in escrow follows:]

PANAMA CANAL COMMISSION PAYMENTS TO PANAMA IN ESCROW

[As of March 1, 1989]

Description of Payments	Basis	Frequency	Amount	Total
1. Tonnage ($0.32/PC Net Ton transiting)	Treaty Art. XIII 4(a)	Monthly	$5,000,000 (est.)	$46.6 M*
2. Fixed Annuity of $10,000,000	Treaty Art. XIII 4(b)	Monthly	833,333.	10.0 M
3. Fixed Public Services of $10,000,000 (Police and fire protection, street maintenance, street lighting and cleaning, traffic management, garbage collection) in Canal operating and housing areas.	Treaty Art. III 5	Monthly	833,333.	10.0 M
4. Income tax deductions from pay of Panamanian employees. These represent tax withholdings and, accordingly, involve money which belongs to the employee and for which PCC is merely the collecting agent.	1963 Diplomatic Note exchange [Preserved by Treaty Minute 2 (cc)]	Biweekly	695,000.	18.0 M
5. Educational tax deductions from pay of Panamanian employees. These also represent tax withholdings and, accordingly, involve money which belongs to the employee and for which PCC is merely the collecting agent.	1972 Diplomatic Note exchange [preserved by Treaty Minute 2 (dd)]	Biweekly	67,000.	1.7 M
6. Miscellaneous payments to agencies of the Government of Panama. (Cement from Cemento Bayano, transportation from SACA, chemical analysis from University of Panama, freight charges from Panama Railroad, etc.)		Monthly		.2 M
Total				$86.5 M

*This amount is net of a total offset amount of $11.5 million (as of March 1, 1989). This offset represents invoices outstanding for more than 30 days from various Government of Panama entities to whom the Commission provides services, such as: water processing; use of garbage disposal dumpsites; rental of several buildings in the Canal area; rental of equipment; maintenance of railroad signal and electrical devices; chill water services provided Panama's post offices in the Canal area; power services.

MILITARY TRAINING/SANCTIONS

Mr. **DYSON**. I still have a number of additional questions I would like to ask. As I said, a lot of us here wear two hats. One of my other hats is as a member of the Armed Services Committee, and as I said at the beginning of the testimony today, that my many trips down there were usually under the auspices of that committee.

At one time, I remember we still had the training school there, we had a number of things that our U.S. military, primarily our Army did, and I know those have been relocated.

The Canal is now under the immediate command of the Southern Command and General Woerner. As I indicated to you earlier, I have met with him, and so I am going to ask you some of the same questions I asked him that day.

Are you satisfied with any of the training and the other exercises that the Commission may have observed, that the military have been involved with? How have our sanctions, United States sanctions, affected the Canal defense preparations? And what sorts of losses have been due to theft, or vandalism in the Canal area since the relationship has soured?

Mr. **MCAULIFFE**. I would like to respond to these questions. First of all, we are dependent upon the United States military forces, ultimately, for the defense and protection of the Canal. The United States forces do exercise, frequently, in and near the Canal, and I will have to say that we are quite satisfied with these results, with the close working relationships that have been developed between the military components, on the one hand, and the Panama Canal Commission on the other.

With respect to the effects of sanctions, I really cannot make a judgment as to how the sanctions and the present economic difficulties in Panama have affected the military forces and their capability to defend the Canal. I would say that the impact of the sanctions falls into the category of harassments, which does not have a major impact on mission accomplishment, but certainly makes it difficult on all the people involved. I suspect that their people, uniformed and civilians alike, have suffered many of the same things that we have been describing to you this morning.

With respect to thefts, I can say that burglaries and thefts in Panama Canal Commission housing areas, housing units that are occupied primarily by our U.S. employees and their families, as well as Commission facilities, have been on the rise over the past year. They are a significant morale factor affecting primarily our U.S. citizen employees. I might add that the losses that we have suffered in the Commission itself, stolen equipment out of our buildings and adjacent to our facilities, is on the rise, and is becoming quite significant.

I cannot speak here for the affect the increase in criminal activity is having on our military communities. However, I think that the United States military police is better able to protect their facilities and housing areas than we can. We have to rely on Panama defense forces for protection, and that has not worked out as well as we would like. I think you can appreciate why that is so.

Mr. DYSON. And what you are saying is the incidents of theft, and so on, are on the increase?

Mr. McAULIFFE. Very definitely. That is brought on by the very dismal economy, the very high unemployment in Panama. Crime has been on the rise over the past year, not just within the Panama Canal area, but in all of the cities of Panama. We are victimized because our communities are relatively isolated, and let's face it—the police protection provided by the defense forces has not been all that effective. I suspect that the crooks find happier hunting grounds in our facilities and housing areas.

RETIREMENT OUTLOOK

Mr. DYSON. It is my understanding that about 85 percent of your employees now are Panamanian, the remainder being primarily U.S. nationals. There is obviously some very small amount of that remainder that are also, I think, various Third World country employees.

In the next decade or so, how many of those are likely to retire—and obviously I guess most will be replaced by Panamanians, or others. What impact is that going to have on the operation of the Canal?

Mr. GIANELLI. Well, let me partially respond, and then Mr. McAuliffe may want to expand on my comments. Our hope is that we will be able to train Panamanians to assume the various duties and tasks that U.S. citizens are now responsible for. We still anticipate having a few U.S. citizens on the rolls of the Commission left by the year 2000, particularly in such areas as the pilot force. We will not have been able to train enough people to take over the full responsibility by that time.

Mr. DYSON. When you say "train enough people," you mean local nationals?

Mr. GIANELLI. Yes. In those cases where we are able to train Panamanians and have them available to take over the various responsibilities, they will be trained adequately so they can perform up to the same levels of the United States citizen employees. I think that has been the case thus far.

We have quite a number that we have trained in the last 10 years, and as far as we know, they are performing very admirably in the positions to which they were promoted.

Mr. McAULIFFE. It is very difficult, Mr. Chairman, to predict, with any degree of precision, the number of Panamanian employees who may retire in a given year. It is easier to predict on the U.S. citizen employee side because there is a mandatory retirement age limit, 62, that applies to the United States citizen employee of the Panama Canal Commission.

There have been many Panamanians serving with pride through 40 and 45 years of service. So, it is really difficult to judge what the retirement impact will be on the operation of the Canal in the year 2000. But I agree with Mr. Gianelli, that in all cases of past retirements, we have had fully capable Panamanian men and women prepared to move into the positions vacated by U.S. citizens and assume those responsibilities.

DRUG TRAFFIC

Mr. **DYSON**. Now I have a real good one I would like to ask you. How do you keep drugs from going up and down the Canal, and illegal armaments, and all of those things that General Noriega is purported to be trafficking in?

It is my understanding, or at least our counsel here has indicated to me, that there is no Coast Guard there to patrol it.

Can you stop a ship, at will, other than if they do not pay their fee?

Mr. **MCAULIFFE**. Occasionally, in the past, the Drug Enforcement Agency, in cooperation with the Panamanian Government, has asked that a particular ship be stopped.

If the vessel has initiated a transit, we insist that it continue its transit and that the vessel be stopped while in Panamanian waters on the other side of the Canal. We would prefer that a problem vessel be stopped, if at all possible, before it ever begins its transit. This type of action is done in concert with the Panamanian Government, and does not directly involve the Commission. As I said, I strongly object to the detention of a vessel while it is in transit because it can delay every other ship behind it. That does not make for an efficient operation of the Canal. However, having said that, let me say that, we do not inspect the cargoes of ships. We do not have the capability nor the resources to determine whether or not a particular ship is carrying drugs or any other type of contraband.

Mr. **DYSON**. So you basically, as you indicated, go on a tip. I assume most of the agencies that deal with that kind of issue operate on tips, but you would not stop ships in the Canal because this would disrupt the schedule. And the only way you can do that—or I assume the two entry ports, from both the Atlantic and the Pacific side, that is where you encourage—I think you said the DEA—to do that, if they are so inclined?

Mr. **MCAULIFFE**. Well, please understand, Mr. Chairman, that it is not the Panama Canal Commission stopping or seizing those vessels. In the instances I have described, it is a combined effort on the part of the United States and Panama. In more recent times, none of these interdiction efforts has taken place because there is no relationship between the United States Government and Panama. Therefore, without cooperation from Panama there cannot be an interdiction of a ship by the United States in Panamanian waters.

TWO-YEAR AUTHORIZATION

Mr. **DYSON**. Let's switch horses. Back to the budget, which is really what this subcommittee is all about today. In the past the Commission has let it be known that they would prefer a 2-year authorization.

Now my concern is that when you have a multi-year authorization, the oversight the Congress has becomes more limited, we consequently have less oversight.

I suppose you will be asking for that again, and when I say "I suppose," because I guess it will depend on who becomes Chairman of the Commission. At this point will you become Chairman, Mr. Gianelli?

Mr. GIANELLI. Well, let me just say that the Chairman, as well as the Administrator, are presidential appointees, and I do not know what the current administration's policy will be with respect to some of these appointed positions. But, I don't think it really makes any difference who is Chairman. I think the views that we have expressed today, I would assume, would be followed by an ensuing administration, or Chairman, or Administrator.

Mr. DYSON. And talk about the 2-year authorization.

Mr. GIANELLI. Well, on the 2-year authorization, I guess we believed that it is consistent with Public Law 100-203, which established the Commission as a revolving fund agency. I think the law recognized that it may not be practical to enact legislation each year. Nevertheless, I think the Commission will continue to prepare and submit an annual operational and capital budget for review each year by this committee.

And at least our thought is that a two-year authorization does not diminish the oversight authority of this committee over the activities of the Canal operation. But it does make it a little easier, if we can operate on a 2-year basis.

GAILLARD CUT

Mr. DYSON. You responded to a question—I do not remember, now, whether it was Mr. Lipinski's or Mrs. Bentley's—you were talking about the proposal to widen the Gaillard Cut. Obviously I can see why the Panamanians would like that. If we went ahead with this, it would obviously happen about the time that they take over the full operation of the Canal.

I think my colleague, the actual Ranking Member of the subcommittee, has offered legislation to shift responsibility for approving, or disapproving the proposal, basically to the Congress.

It is my understanding that right now you have that authority over the proposal.

Mr. GIANELLI. Well, Mr. Chairman, let me——

Mr. DYSON. I can also understand why you would not want to make decisions about it, but I would like to hear your views on it.

Mr. GIANELLI [continuing]. Let me say this, Mr. Chairman. I think the Commission will abide by whatever the judgment of the Congress is on this matter. I think one of the things that I believed personally, at least with respect to the Gaillard cut widening, is that it will be a project requiring a substantial investment. I do not know what the final cost would be, but it probably will run in the neighborhood of $300 million to $400 million. One of the major and controversial decisions that will have to be made is how is the project going to be financed. It is a very large and complex project. As I have indicated, we thought that before the Commission embarked on a project of this magnitude, that Congress would like to have something to say about whether that project should proceed due to the amount of money that would be involved and certainly consider the financing arrangements contemplated by the Commission to funding the project. So, if it is the judgment of Congress that it does not want to be involved, then I think the Commission would go ahead, in so far as it could, and make decisions on its own.

But because it is a very large project, it will probably end up being quite controversial. The Panamanians of course feel that the United States should finance it out of U.S. taxpayer funds, and not from the tolls assessed for that purpose. We, of course do not feel that way, and if the facility had to be financed from toll income, it would result in a substantial toll increase which would be of great interest to the maritime community. I assessed, personally, that the Congress might desire to have some input on this particular project, if the project ever does get off the ground.

GAILLARD CUT FINANCING

Mr. DYSON. Well, as I understand it, all capital projects now are paid for, ultimately, by the toll receipts.

Clearly, if you are considering something like widening the Gaillard Cut, at some point the Commission must decide what would it cost in terms of toll revenue projections to fund that. Do you have that kind of information?

Mr. GIANELLI. We will be doing that, and that is to be considered in the report I referred to earlier. The report should be available to the Commission in the next few months, and will include figures with respect to this project. It depends partially upon estimates of traffic which we are now having brought up-to-date by consultants. We expect to have specific figures when that report is completed.

But let me just say, I think it will take a substantial increase in toll rates, particularly if the total cost of the project is to be financed over the remaining 10 years during which the United States is in control of the Canal operations. If we have to finance a $300 to $400 million expenditure solely from toll revenues over the next 10 or 11 years, I think it would be a substantial increase in toll rates. I hope we will have some figures on this shortly.

Mr. DYSON. You will have that?

Mr. GIANELLI. Yes.

Mr. DYSON. Good. We would be interested in receiving that. We certainly will not keep this record open that long, but we would like to see that at some point.

Mr. GIANELLI. We certainly will keep the committee informed whether or not the legislation that you referred to passes, or not, Mr. Chairman.

NUCLEAR SHIPMENT

Mr. DYSON. I have one other question. As you may know, back in 1982 our Nation's first commercial nuclear power plant was decommissioned. The reactor has been sealed in concrete. The cargo is now being towed down the Mississippi towards the Panama Canal, ultimately to end up in Hanford, Washington.

From all indications that we have, there is really very little risk involved in this. But I can also see the potential of a lot of problems by having a decommissioned nuclear reactor passing through the Panama Canal. It is my understanding that the Commission is solely responsible for drafting and enforcing its own environmental safety standards applying to hazardous cargo. In my opinion, this is certainly that.

Can you tell me what your procedures are for handling just this sort of thing. For example, in the case of this first decommissioned reactor that is going to be coming through, shortly.

Mr. GIANELLI. Mr. Chairman, the Commission frequently handles vessels carrying radioactive cargos. They are pretty much a routine matter for the Canal operation.

Mr. DYSON. Not a decommissioned nuclear reactor.

Mr. GIANELLI. We have handled a number of nuclear ships and shipments of spent nuclear products through the Canal. We have found that there are other agencies who are equally concerned about how those particular kinds of cargoes are handled. For example, there are a number of agencies—the Corps of Engineers, the Nuclear Regulatory Commission, and others—that are very careful in terms of the guidelines they establish for transporting materials like this. Nevertheless, we have our own precautions. We are responsible for drafting and enforcing our dangerous cargo safety regulations, which contain generally accepted criteria for handling these types of cargo. We believe that our rules and procedures have precluded any major problems. We will continue to monitor the situation and watch that very carefully, and make certain that all of the precautions are taken that seem to be appropriate.

Mr. DYSON. Well, I would only say to you that obviously a reactor is a lot different than spent fuel rods. Were there any procedures changed—maybe Phil can answer this—or do you anticipate changing any of them, in response to this reactor passing through the Canal?

Mr. MCAULIFFE. There are, for any ship that has radioactive cargo, or, for that matter, other types of hazardous cargo, we do put into effect special transit rules that apply which are designed to ensure the vessel's safe transit through the Canal. But let me go to the points made by Mr. Gianelli, to add that our policy is one that requires compliance with the International Maritime Organization standards for the handling of nuclear and other hazardous cargos as a condition of transit. The information on the type and amounts of such cargo must be provided to us 48 hours in advance, so that we can make appropriate preparations, and if it requires that we should isolate the ship and provide special treatment in the course of its transit, then we are prepared to do just that.

INSURANCE

Mr. DYSON. What kind of insurance do you have to insure against any kind of liability, or in case any unhappy event occurs?

Mr. GIANELLI. Well, Mr. Chairman, the Commission has insurance coverage to protect it against unpredictable revenue losses and expenses arising from catastrophic events. However, I want to point out, that excepted from the policies that we have, simply because it is unavailable, is coverage for losses arising from nuclear incidents. Accordingly, any damages or losses which would be attributed to the release or explosion of radioactive substances is not covered specifically by our insurance policies at the present time.

Mr. DYSON. So you are not insured, if something happens with that reactor?

Mr. GIANELLI. Not with respect to losses associated with nuclear cargo because insurance has not been available, at least up until now. I would hope that as more experience is gained in terms of the transportation of these items, that the insurance companies will not be as nervous about them, and perhaps we will be able to secure coverage for them just like other problems that we might have.

Mr. DYSON. Well, if Noriega really wanted to do something, that would be it, wouldn't it?

Mr. GIANELLI. No, I would think that he would be as concerned about the Canal operation as we are. Really, he could do a lot of other things, Mr. Chairman.

Mr. DYSON. Well, I know that, and he is, but——

Mr. GIANELLI. I do not consider that option to be in the best interest of Panama or the Canal. Certainly, you know, the Canal is a vulnerable facility, and I am sure that if anyone wanted to inflict damage or, provide mischief, they could find many ways to do it. And the one we've been talking about would be one, of course.

CONCLUSION

Mr. DYSON. Well, as you can see, our members have all left. I know they all had other committees to attend. Unless any of our staff has questions, we are going to wrap this up today.

I would not have been able to be as effective a Chairman today without the help of a lot of people, and I would just like to point some of them out to you, and at least to the people here in our office.

Cher Brooks, who is the counsel for the subcommittee, has been an invaluable help, and I would like to thank her. The counsel for the full committee, Ed Welch, is here, and Barbara Cavas, our clerk to the committee is here, the chief clerk for the full committee. Charlie Ulrich is our staff director. Dolores Wesson is one of our professional staff people. And Jennifer was here, one of our other people, in the back of the room. Dave Whaley is the counsel for the Minority staff, and Harry Burroughs for the Ranking Minority member, and Bill Lally was here with Mrs. Bentley just a few minutes ago.

And again, as my colleague from Maryland did, let me welcome the ambassador, Ambassador Juan Sosa, for being here in the room today.

Mr. Gianelli, and General McAuliffe, we really do appreciate your being here, coming here today. You have given us some very fine testimony, and things that we are going to be very interested in.

Let me also say that last week when your staffs were here to present the budget overview in an informal setting, I thought they did a very good job. We will obviously have more questions for you in the future, and obviously more times we will come face to face as we prepare for this authorization.

Thank you, again. The subcommittee is now adjourned.

[Whereupon, at 11:31 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

FISCAL YEAR 1990

BUDGET PROGRAMS

STATEMENT OF THE

ADMINISTRATOR, PANAMA CANAL COMMISSION

BEFORE THE

PANAMA CANAL/OUTER CONTINENTAL SHELF SUBCOMMITTEE

COMMITTEE ON MERCHANT MARINE AND FISHERIES

HOUSE OF REPRESENTATIVES

MARCH 16, 1989

OPENING STATEMENT
OF
MR. DENNIS P. McAULIFFE

INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM DENNIS P. McAULIFFE, ADMINISTRATOR OF THE PANAMA CANAL COMMISSION. I AM PLEASED TO APPEAR BEFORE YOU TODAY WITH THE HONORABLE WILLIAM R. GIANELLI TO REQUEST AUTHORIZATION FOR THE FISCAL YEAR 1990 BUDGET PROGRAMS OF THE PANAMA CANAL COMMISSION, THE AGENCY RESPONSIBLE FOR THE OPERATION OF THE PANAMA CANAL.

MILESTONE

THIS YEAR, WE TAKE AN EXTRA MEASURE OF PRIDE IN OUR REPORT TO YOU, AS IN 1989 WE WILL BE CELEBRATING THE 75th ANNIVERSARY OF THE PANAMA CANAL. SINCE 1914, THE PANAMA CANAL HAS BEEN OPEN TO WORLD COMMERCE, PROVIDING SAFE AND EFFICIENT SERVICE TO ITS CUSTOMERS. THIS RECORD OF SERVICE IS AN ACCOMPLISHMENT THAT FEW GOVERNMENT ENTERPRISES CAN MATCH IN TODAY'S BUSINESS ENVIRONMENT. AS WE CELEBRATE THIS IMPORTANT EVENT, ALL WHO HAVE BEEN INVOLVED IN THIS OPERATION OVER THESE YEARS CAN BE EXTREMELY PROUD OF THE ROLE THAT THEY HAVE PLAYED IN THIS ACHIEVEMENT. I WOULD ALSO JOIN WITH MR. GIANELLI IN RECOGNIZING THE VITAL IMPORTANCE OF THIS SUBCOMMITTEE AND ITS STAFF IN ACHIEVING THIS MILESTONE.

OVERVIEW FISCAL YEAR 1988

MR. GIANELLI HAS TOUCHED UPON MANY OF THE CHAOTIC EVENTS OF THIS PAST YEAR. THESE EVENTS HAVE AFFECTED ALL COMMISSION EMPLOYEES

TO A GREATER OR LESSER EXTENT. IT IS A TRIBUTE TO THEM THAT, DESPITE THIS DAILY STRESS, THEY HAVE SUSTAINED THE COMMISSION'S OPERATIONS. WITH RESPECT TO THE FISCAL YEAR 1988 FINANCIAL RESULTS, DESPITE SOME UNANTICIPATED COSTS ASSOCIATED WITH THE POLITICAL UNREST DURING THE YEAR, AS WELL AS A VERY ERRATIC TOLLS PERFORMANCE, WE WERE ABLE TO COME CLOSE TO THE PROJECTED BREAK-EVEN OPERATION FOR THE YEAR. THE FINAL OPERATING RESULTS SHOWED A MODERATE LOSS OF APPROXIMATELY $1.8 MILLION. AS PROVIDED FOR IN THE PANAMA CANAL ACT, THIS LOSS WILL BE CARRIED FORWARD FOR FUTURE RECOVERY.

OUTLOOK FOR FISCAL YEAR 1989

THE COMMISSION'S BUDGET JUSTIFICATION BOOK BEFORE YOU PROJECTS A MODERATE LOSS OF $2.5 MILLION FOR FISCAL YEAR 1989, REFLECTING THE COMMISSION'S DECISION TO DEFER THE TOLL RATE INCREASE INITIALLY PLANNED FOR THAT YEAR. HOWEVER, IT NOW LOOKS AS IF TOLLS AND OTHER REVENUES WILL COME UNDER THE LEVELS PROJECTED RESULTING IN A SOMEWHAT LARGER LOSS THAN ANTICIPATED. AS YOU KNOW, ALL LOSSES ARE CARRIED FORWARD FOR RECOVERY IN FUTURE YEARS. ACCORDINGLY, THE FISCAL YEAR 1989 LOSS, ALONG WITH PREVIOUS YEARS' LOSSES, WILL BE AN ELEMENT OF COST IN THE FORTHCOMING TOLL RATE INCREASE REFERRED TO BY MR. GIANELLI.

FISCAL YEAR 1990 OPERATIONS

AS INDICATED IN THE BUDGET, THE TRAFFIC OUTLOOK FOR FISCAL YEAR 1990 REFLECTS A MODEST DECLINE IN THE NUMBER OF TRANSITS AND TOLL REVENUES FROM THE LEVELS SHOWN FOR FISCAL YEAR 1989.

THIS DECLINE IS PREDICATED ON THE ANTICIPATED DOWNTURN IN THE AUTOMOBILE TRADE, COMBINED WITH THE SLOWDOWN IN THE GROWTH RATE OF CONTAINER TRAFFIC, AND WEAKNESS IN CERTAIN KEY BULK TRADES. THIS ANTICIPATED LOWER BUT STABLE REVENUE OUTLOOK, COUPLED WITH RISING INFLATION, ARE THE PRINCIPAL REASONS WHY A TOLL RATE INCREASE IS REQUIRED FOR FISCAL YEAR 1990. IN THIS REGARD, I BELIEVE THAT IT IS IMPORTANT TO POINT OUT THAT IF THE COMMISSION INCREASES TOLL RATES IN FISCAL YEAR 1990, AS PLANNED, THERE WOULD HAVE BEEN NO PRICE INCREASE OVER A PERIOD OF ALMOST SEVEN YEARS, WHICH REPRESENTS AN EXTRAORDINARY LEVEL OF PRICE STABILITY TO OUR CUSTOMERS.

WITH RESPECT TO THE COMMISSION'S AUTHORIZATION, WE ARE REQUESTING THAT THE COMMITTEE AUTHORIZE TOTAL EXPENDITURES WITHIN THE LIMITS OF FUNDS AND BORROWING AUTHORITY AVAILABLE TO IT AS A REVOLVING FUND ENTITY.

FOR THOSE ITEMS UNDER CONGRESSIONAL LIMITATIONS, THE COMMISSION IS REQUESTING AUTHORIZATION FOR OFFICIAL RECEPTION AND REPRESENTATION EXPENSES TOTALING $52,000, OF WHICH (A) NOT MORE THAN $12,000 MAY BE AVAILABLE TO THE SUPERVISORY BOARD OF THE COMMISSION, (B) NOT MORE THAN $6,000 MAY BE AVAILABLE FOR SUCH EXPENSES OF THE SECRETARY OF THE COMMISSION, AND (C) NOT MORE THAN $34,000 MAY BE AVAILABLE TO THE ADMINISTRATOR OF THE COMMISSION.

CAPITAL REQUIREMENTS

TURNING TO THE CAPITAL PROGRAM FOR FISCAL YEAR 1990, WE ARE PROJECTING A REQUIREMENT FOR $32 MILLION FOR NEW CAPITAL PROJECTS. AS IN PAST YEARS, THE GREATEST PORTION OF THE PROGRAM IS DEVOTED TO ESSENTIAL TRANSIT FACILITIES AND EQUIPMENT. MAJOR ITEMS IN THE 1990 PROGRAM INCLUDE CONTINUED UPGRADING OF THE FIRE PROTECTION SYSTEM AT THE LOCKS; REPLACEMENT OF CERTAIN FLOATING EQUIPMENT; THE DESIGN AND INSTALLATION OF IMPROVED LOCOMOTIVE TURNTABLES AT THE LOCKS; PROCUREMENT OF A LARGE MECHANICAL PLANER FOR INDUSTRIAL TYPE PURPOSES; AND THE REPLACEMENT OF ELECTRICAL SWITCHGEAR COMPONENTS AT THE LOCKS.

INCREASED PANAMANIAN PARTICIPATION

STEADY PROGRESS HAS BEEN MADE IN OUR EFFORTS TO MEET THE TREATY MANDATE OF INCREASED PANAMANIAN PARTICIPATION IN THE CANAL'S OPERATION. IN ADDITION TO THE RECENT APPOINTMENT OF A PANAMANIAN TO THE POSITION OF PERSONNEL DIRECTOR, SEVERAL OF OUR LARGEST OPERATING ORGANIZATIONS ARE NOW HEADED BY PANAMANIANS. THESE INCLUDE OUR LOCKS AND DREDGING OPERATIONS, AND THE CANAL SERVICES OPERATION WHICH HAS RESPONSIBILITY FOR ALL TUG, LAUNCHES AND LINEHANDLER FUNCTIONS ON THE CANAL. THIS INCREASING PARTICIPATION OF QUALIFIED PANAMANIAN EMPLOYEES SERVING IN KEY POSITIONS HAS SERVED TO STRENGTHEN OUR RELATIONS WITH OUR PANAMANIAN EMPLOYEES AND THE COMMUNITY AT LARGE.

CONCLUSION

BEFORE CONCLUDING MY REMARKS ON THE 1990 BUDGET, I WOULD LIKE TO POINT OUT THAT WHILE THE COMMISSION HAS EXPERIENCED A VERY UNUSUAL AND DEMANDING YEAR, RESULTING PRINCIPALLY FROM THE POLITICAL DIFFICULTIES WITHIN THE REPUBLIC OF PANAMA, THE CANAL HAS REMAINED OPEN, PROVIDING SAFE AND EFFICIENT SERVICE TO ALL CANAL CUSTOMERS. THIS FACT IS DUE PRIMARILY TO THE DEDICATION AND PROFESSIONALISM OF COMMISSION EMPLOYEES--U.S., PANAMANIAN, AND THIRD COUNTRY NATIONALS--MANY OF WHOM HAVE BEEN DIRECTLY AFFECTED BY THESE EVENTS. I JOIN MR. GIANELLI IN COMMENDING THE COMMISSION WORK FORCE FOR ITS OUTSTANDING PERFORMANCE.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED REMARKS. I SHALL BE PLEASED TO JOIN MR. GIANELLI IN ANSWERING ANY QUESTIONS YOU OR OTHER MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

FISCAL YEAR 1990
BUDGET PROGRAMS

STATEMENT OF THE
CHAIRMAN, BOARD OF DIRECTORS
PANAMA CANAL COMMISSION

BEFORE THE
PANAMA CANAL/OUTER CONTINENTAL SHELF SUBCOMMITTEE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

MARCH 16, 1989

OPENING STATEMENT
OF THE
CHAIRMAN OF THE BOARD

INTRODUCTION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM WILLIAM R. GIANELLI, CHAIRMAN OF THE BOARD OF THE PANAMA CANAL COMMISSION. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PRESENT OUR FISCAL YEAR 1990 BUDGET PROGRAMS AND ALSO TO REPORT ON THE MORE SIGNIFICANT DEVELOPMENTS AND ACCOMPLISHMENTS PERTAINING TO THE PANAMA CANAL ENTERPRISE. PARTICIPATING WITH ME IN THIS HEARING ARE D. P. McAULIFFE, THE ADMINISTRATOR OF THE COMMISSION, AND MY ASSISTANT, MICHAEL RHODE, SECRETARY OF THE COMMISSION.

AT THE OUTSET, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO EXPRESS MY APPRECIATION TO THIS SUBCOMMITTEE FOR THE VALUABLE ASSISTANCE IT HAS PROVIDED OVER THE YEARS TO THE PANAMA CANAL COMMISSION.

OPERATING ENVIRONMENT

THIS COMING SEPTEMBER 30TH, THE PANAMA CANAL COMMISSION WILL HAVE COMPLETED TEN YEARS OF OPERATION UNDER THE TERMS OF THE 1977 TREATY WITH THE REPUBLIC OF PANAMA. DURING THIS TIME WE HAVE BEEN FACED WITH MANY DIFFICULT CHALLENGES WHICH FOR THE MOST PART HAVE BEEN A DIRECT RESULT OF THE IMPLEMENTATION OF THE TREATY'S PROVISIONS, WHILE MORE RECENTLY, OTHERS WERE SPAWNED FROM THE POLITICAL CRISIS THAT BEGAN OVER A YEAR AGO AND IS ONGOING TODAY IN PANAMA. THESE EVENTS ARE UNPRECEDENTED AND CONTINUE TO POSE SERIOUS PROBLEMS FOR THE EFFICIENT OPERATION OF THE WATERWAY.

WHEN WE WERE BEFORE THIS SUBCOMMITTEE THIS TIME LAST YEAR, PANAMA WAS UNDERGOING A PERIOD OF SEVERE CIVIL UNREST, INCLUDING STRIKES, DEMONSTRATIONS AND ALMOST DAILY CONFRONTATIONS BETWEEN POLICE AND THE POPULACE. IN ADDITION, A DETERIORATING ECONOMIC SITUATION LED TO THE CLOSURE OF THE ENTIRE PANAMA BANKING SYSTEM FOR A PERIOD OF NINE WEEKS. WHILE THESE EXTREME CONDITIONS NO LONGER PREVAIL, THE SITUATION IS FAR FROM NORMAL AND PROBABLY WILL NOT IMPROVE FURTHER UNTIL THE DIFFERENCES BETWEEN THE UNITED STATES AND THE REPUBLIC OF PANAMA ARE RESOLVED.

OUR GREATEST CONCERN IS PRESERVING THE MORALE AND WELL-BEING OF THE CANAL WORK FORCE--U.S. AND PANAMANIAN CITIZENS ALIKE. MOST OF THE PROBLEMS BEING FACED BY OUR EMPLOYEES CAN BE TRACED TO THE RESPONSE OF THE NORIEGA-SOLIS REGIME TO THE ECONOMIC SANCTIONS IMPOSED BY THE UNITED STATES. FOR EXAMPLE, MONIES WITHHELD FROM PANAMANIAN EMPLOYEES FOR INCOME AND EDUCATION TAXES HAVE NOT BEEN PAID TO THE LOCAL AUTHORITIES. AS A RESULT, MANY OF OUR PANAMANIAN EMPLOYEES FACE LEGAL ACTIONS BY THE PANAMANIAN GOVERNMENT WHICH COULD LEAD TO CONFISCATION OF AUTOMOBILES, HOMES AND PERSONAL BANK ACCOUNTS, AS WELL AS THE DENIAL OF VEHICLE LICENSE PLATES AND DOCUMENTS NECESSARY TO TRAVEL OUTSIDE THE COUNTRY AND TO CONDUCT PERSONAL BUSINESS.

WITH REGARD TO THE U.S. CITIZEN WORK FORCE, THEY ARE RIGHTFULLY CONCERNED ABOUT THE SAFETY OF THEIR FAMILIES AND SECURITY OF THEIR HOMES AND PERSONAL PROPERTY. THIS CONCERN IS DRIVEN BY THE DRAMATIC

INCREASE IN BURGLARIES AND AUTO THEFTS IN COMMISSION TOWNSITES, ALONG WITH A NOTABLE LACK OF POLICE RESPONSE. IN ADDITION, BECAUSE OF WIDELY PUBLICIZED CASES OF HARRASSMENT AND INTIMIDATION OF COMMISSION EMPLOYEES BY LOCAL AUTHORITIES, THERE IS GENERAL APPREHENSION ABOUT THE FUTURE AND, IN PARTICULAR, WHETHER THERE IS A SOURCE OF PROTECTION THEY CAN CALL UPON.

DESPITE THESE DIFFICULT TIMES, I AM PROUD TO SAY THAT OUR EMPLOYEES CONTINUE TO PERFORM THEIR JOBS WELL AND EFFICIENTLY, AND WE HAVE CONTINUED TO PROVIDE EXCELLENT SERVICE TO WORLD SHIPPING.

FINANCIAL STRUCTURE

NOTWITHSTANDING THESE POLITICAL DIFFICULTIES, THERE WAS A VERY POSITIVE CHANGE THAT TOOK PLACE WITHIN THE PANAMA CANAL COMMISSION LAST YEAR. THIS EVENT WAS THE CONVERSION OF THE COMMISSION FROM AN APPROPRIATED-FUND AGENCY TO A REVOLVING-FUND AGENCY. THE IMPLEMENTATION OF THE REVOLVING-FUND LEGISLATION ON JANUARY 1, 1988 WAS AN IMPORTANT IMPROVEMENT FOR THE PANAMA CANAL COMMISSION'S FINANCIAL STRUCTURE. AS COULD BE EXPECTED, THERE WERE SOME MINOR PROBLEMS ASSOCIATED WITH CONVERTING TO A NEW SYSTEM IN THE MIDST OF A FISCAL YEAR; HOWEVER, THESE PROBLEMS WERE DEALT WITH, AND THE CHANGEOVER WAS ACCOMPLISHED WITH COMPLETE SUCCESS. WITH MORE THAN A YEAR'S EXPERIENCE BEHIND US, WE ARE CONFIDENT THAT THE REVOLVING-FUND STRUCTURE WILL PROVIDE COMMISSION MANAGEMENT WITH THE MEANS TO EFFECTIVELY MANAGE AND OPERATE THE PANAMA CANAL UNTIL, UNDER THE TREATY, IT IS TURNED OVER TO PANAMA.

BOARD ACTIVITIES

OVER THE COURSE OF THE LAST FISCAL YEAR, THE POLITICAL EVENTS THAT HAVE AFFECTED THE COMMISSION HAVE ALSO HAD AN IMPACT UPON THE ACTIVITIES OF ITS BOARD OF DIRECTORS AS WITNESSED BY THE FACT THAT OUR PANAMANIAN BOARD MEMBERS DID NOT ATTEND A BOARD MEETING FROM JANUARY OF 1988 UNTIL THE MOST RECENT MEETING HELD ON JANUARY 11, 1989. THIS MEETING WAS IN HOUSTON TEXAS, AND INCLUDED A REVIEW OF THE HOUSTON PORT FACILITIES--AN IMPORTANT PORT FOR CERTAIN SHIP TRAFFIC USING THE CANAL. THE PANAMANIAN DELEGATION TO THE BOARD OF DIRECTORS ARRIVED AS SCHEDULED, HOWEVER, BECAUSE MR. JUAN SOSA, THE RECOGNIZED PANAMANIAN AMBASSADOR TO THE UNITED STATES, WAS PRESENT, THEY ELECTED TO LEAVE IN PROTEST. I WOULD LIKE TO NOTE THAT THE PRESENCE OF THE FIVE UNITED STATES MEMBERS OF THE BOARD OF DIRECTORS CONSTITUTES A QUORUM. CONSEQUENTLY, THE ESSENTIAL BUSINESS OF THE PANAMA CANAL COMMISSION HAS BEEN CONDUCTED ON AN UNINTERRUPTED BASIS. I WOULD LIKE TO FURTHER POINT OUT THAT ONE OF THE MATTERS OF BUSINESS CONSIDERED AT THE LAST MEETING WAS THE APPOINTMENT, BY THE BOARD OF DIRECTORS, OF A PANAMANIAN NATIONAL TO THE POSITION OF PERSONNEL DIRECTOR FOR THE COMMISSION. THIS IS AN IMPORTANT POSITION AND AGAIN DEMONSTRATES OUR COMMITMENT TO THE OBJECTIVE OF INCREASING PANAMANIAN PARTICIPATION AT ALL LEVELS OF EMPLOYMENT.

SIGNIFICANT TREATY EVENTS

ONE OF THE MORE SIGNIFICANT EVENTS FACING THE COMMISSION THIS COMING YEAR WILL BE THE NAMING OF A PANAMANIAN NATIONAL TO THE POSITION OF ADMINISTRATOR OF THE COMMISSION. YOU WILL RECALL THAT

THE TREATY REQUIRES THAT A PANAMANIAN NATIONAL BE APPOINTED TO THE POSITION OF ADMINISTRATOR, AND THAT A UNITED STATES NATIONAL BE APPOINTED TO THE POSITION OF DEPUTY ADMINISTRATOR, EFFECTIVE JANUARY 1, 1990. THE TREATY PROVIDES THAT THE REPUBLIC OF PANAMA IS TO PROPOSE TO THE UNITED STATES THE INDIVIDUAL FOR THE ADMINISTRATOR'S POSITION FOR APPOINTMENT BY THE UNITED STATES. HOWEVER, THE LEGISLATION IMPLEMENTING THE TREATY ALSO REQUIRES THAT THE INDIVIDUAL THUS NOMINATED BE FORMALLY APPOINTED BY THE PRESIDENT OF THE UNITED STATES WITH THE ADVICE AND CONSENT OF THE SENATE. THUS, ON JANUARY 1, 1990 THE FIRST PANAMANIAN CITIZEN IS SCHEDULED TO BE ASSIGNED TO THIS VERY IMPORTANT ROLE IN THE MANAGEMENT AND OPERATION OF THE PANAMA CANAL. HOWEVER, UNDER THE PRESENT POLITICAL ENVIRONMENT, WE FORESEE SOME DIFFICULTY IN THIS CHANGEOVER OCCURRING AS REQUIRED BY THE TREATY. THE APPOINTMENT OF A U.S. DEPUTY ADMINISTRATOR WILL BE AN IMPORTANT EVENT, AND WE WILL PROCEED WITH THAT NOMINATION LATER THIS YEAR.

REGARDLESS OF THE CHALLENGES AHEAD, I WISH TO REITERATE OUR RESOLVE TO CONTINUE OPERATING THE PANAMA CANAL IN THE MOST EFFICIENT MANNER POSSIBLE.

ANTICIPATED TOLL-RATE INCREASE

IN THE COMMISSION'S REPORT TO THE SUBCOMMITTEE LAST YEAR, WE FORECASTED A NEED FOR A TOLL-RATE INCREASE AT THE START OF FISCAL YEAR 1989. REALIZING THE NEED TO KEEP CANAL COSTS COMPETITIVE, WHILE STILL RECOVERING THE COST OF OPERATIONS, WE MONITORED THE

SITUATION VERY CLOSELY AS BETTER INFORMATION BECAME AVAILABLE. IN THE SUBSEQUENT ROUND OF FORECASTING, A SLIGHTLY IMPROVED REVENUE PICTURE WAS PROJECTED WHICH, WHEN COMBINED WITH CERTAIN COST DEFERRALS, WOULD RESULT IN THE COMMISSION ENDING THE YEAR WITH A SMALL LOSS OF APPROXIMATELY $2.5 MILLION. ON THE BASIS OF THESE PROJECTIONS, THE COMMISSION DEFERRED THE TOLL RATE INCREASE THAT WAS ORIGINALLY ANTICIPATED FOR FISCAL YEAR 1989.

LOOKING AHEAD TO FISCAL YEAR 1990, WE ANTICIPATE THAT THE COMMISSION WILL NO LONGER BE ABLE TO CONTINUE TO ABSORB THE EFFECTS OF RISING PRICES IN THE FACE OF MARGINAL TRAFFIC GROWTH. ACCORDINGLY, WE ARE PROJECTING THE IMPLEMENTATION OF A TOLL RATE INCREASE EFFECTIVE OCTOBER 1, 1989. EVERY EFFORT WILL BE MADE TO KEEP THE RATE INCREASE TO A MINIMUM AND STILL ACHIEVE OUR LEGAL MANDATE OF OPERATING THE CANAL ON A BREAK-EVEN BASIS, AT NO COST TO THE U.S. TAXPAYER. THE COMMISSION WILL KEEP THE COMMITTEE INFORMED ON DEVELOPMENTS IN THIS AREA.

BUDGET PROGRAMS

MR. CHAIRMAN, WHILE MR. McAULIFFE WILL ADDRESS IN MORE DETAIL THE BUDGET PROGRAMS THAT ARE PLANNED IN FISCAL YEAR 1990, I WANT TO AFFIRM THAT THE PROGRAMS FOR THAT YEAR ARE ESSENTIAL AND ARE IN ACCORD WITH THE PROGRAM OF THE PRESIDENT.

RECOGNITION OF CANAL EMPLOYEES

AT THIS TIME I WOULD LIKE TO EXPRESS MY GRATITUDE FOR THE LOYALTY AND COMMITMENT OF ALL OF THE PANAMA CANAL COMMISSION EMPLOYEES. THIS PAST YEAR HAS BEEN ONE OF EXTREMELY TRYING CIRCUMSTANCES FOR ALL OF US INVOLVED WITH THE PANAMA CANAL ENTERPRISE. DESPITE THE PRESSURES BROUGHT TO BEAR UPON OUR EMPLOYEES, THEIR DEDICATION HAS RESULTED IN ANOTHER YEAR OF SAFE AND EFFICIENT SERVICE TO THE INTERNATIONAL SHIPPING COMMUNITY. ALL OF THE EMPLOYEES DESERVE RECOGNITION FOR THEIR EFFORTS IN THIS ENDEAVOR.

CONCLUSION

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I WOULD LIKE TO REITERATE MY APPRECIATION TO YOU AND THIS SUBCOMMITTEE FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. IF IT MEETS WITH YOUR APPROVAL, I RECOMMEND THAT MR. McAULIFFE BE ALLOWED TO PRESENT HIS STATEMENT, AND THEN WE BOTH WILL BE AVAILABLE FOR QUESTIONS.

ADDITIONAL QUESTIONS SUBMITTED BY CONGRESSMAN DYSON OF THE SUBCOMMITTEE

GAILLARD CUT

Question. Is the specter of a Panamanian Administrator coming on board, who might push hard for widening the Gaillard Cut, one reason you want the Congress to handle this issue?

Answer. No, the reason is that we know the widening of the Cut will be an important decision in Canal operations and that the Congress, in its oversight role, should authorize any such expenditure of Canal funds.

PANAMANIAN ADMINISTRATOR

Question. Assuming that relations are normalized, and the change occurs on schedule, how will this affect the Commission's policies?

Answer. There may be some minor operational changes; however, the presence of the Board, of which a majority is U.S. citizens, ensures the interest of the United States in the operation of the Canal will be provided for until the year 2000.

CARGO DIVERSION

Question. Is there anything you see in emerging trade patterns that indicate there may be a larger role for the Canal in Far Eastern trade?

Answer. Trade between the Far East and the U.S. is expected to remain important for the Canal, but trade patterns indicate that its relative importance will likely decline. Changes such as those occurring in the Japanese automobile industry and the continued erosion of the Canal's market share in the container trade are some of the factors that suggest that in the long term, little or no growth will be reflected in traffic on the U.S./Far East route via the Canal.

NUCLEAR SHIPMENTS

Question. Do you anticipate that candidates for the presidency of Panama will turn the upcoming transit of a decommissioned nuclear power plant through the Canal into a political issue?

Answer. It would be extremely difficult to speculate on what candidates for the presidency of the Republic of Panama will do with respect to this issue. However, since the Commission, from time to time, transits nuclear ships or ships with nuclear cargo, this is not expected to have much effect on the day-to-day operation of the Canal.

EMPLOYEE MORALE/RELATIONS

Question. According to the Commission's most recent activities report, roughly 85% of all employment is Panamanian, with the remainder being mostly U.S. nationals and a small percentage being third-country nationals. However, 85% of the Canal's pilot are now U.S. employees. Do you anticipate any shortage of adequately trained Panamanian pilots by the year 1999?

Answer. At the present time, 24% of the 238-man pilot force is comprised of Panamanian citizens. The Commission has several programs in place for training pilots. It currently estimates that 90% of the pilot work force will be composed of Panamanian nationals by the year 2000.

Question. Do you have contingency plans for evacuating or protecting Commission employees during an emergency or if hostilities broke out between the U.S. and the Panamanian Defense Forces?

Answer. Yes. The Commission has participated in extensive emergency evacuation planning with the Department of Defense and the American Embassy in Panama. The implementation of such plans would be triggered by the Ambassador, should he decide that the mandatory evacuation of American citizens from Panama was needed. The Commission has developed a detailed evacuation plan for the relocation of dependents of U.S. citizen employees to a safe haven (most likely the United States) should the need arise. This plan is a subcomponent of the master evacuation plan developed by the U.S. Forces which has the responsibility for transporting U.S. citizens out of Panama to a safe haven. The plan was tested recently during a mock evacuation exercise conducted by the U.S. forces, using volunteers from the Commission and the military.

Question. Last year the Commission released a proposed relocation assistance policy that would have allowed harassed U.S. employee dependents to get financial help if they wished to leave the country. What's become of that policy, and are the employees satisfied with it?

Answer. The program approved by the Board of Directors to temporarily relocate dependents of U.S. citizen employees (but not employees themselves) is still in effect. Modifications have been made to the program's eligibility criteria which currently limit Commission-paid travel and per diem benefits to the dependents of Commission employees who have suffered direct physical harm or politically motivated harassment.

To date, 22 requests for relocation of dependents have been received by the Commission. Of that total, 2 have been approved, 11 have been disapproved, and the remainder are under review. While the program may appear restrictive, the Administrator has publicly stated that he is prepared to expand the eligibility criteria in the event he determines that such action is necessary to protect U.S. employees' families or to ensure the efficient operation of the Canal.

Question. Last month there was an incident in Panama where school buses were stopped and the drivers abused, while the kids were taken to a local police station. Can the Commission ensure the safety of their employees' children, and are you satisfied with the protection that SOUTHCOM is providing?

Answer. In the absence of protection service provided by the Panama Defense Forces, the Commission looks to the U.S. military to provide protection to our employees and their children. Fortunately, the Commission has not had any major requirement to call upon the U.S. military to ensure the safety of Commission operation and/or personnel.

Question. The Commission has an Ombudsman to handle individual employee grievances. Does he report to you about any criminal harassment or personal assault or property losses the employees suffer in Panama? Have there been increases in reports of assault or property damage and loss since the imposition of U.S. economic sanctions?

Answer. The Ombudsman routinely reports to the Administator regarding information he receives from employees regarding harassments, personal assaults, and property losses employees suffer. This information is corroborated and in some cases augmented through other sources available to the Commission. As it regards the frequency of criminal activity, the Commission has noted an increase in such activity since May of last year.

The growth in criminal activities in Commission housing areas is having an increasingly negative effect on the morale of U.S. citizen employees and their dependents.

In response to this situation, the Commission has initiated efforts to have the Panama Defense Forces increase their police patrols in housing areas. The Commission has also provided reprogrammed resources to fund an expanded housing security program. This program covers the installation of security bars on windows, home security alarms, turnbolts on doors, lexan windows, burglarproof screening on doors with windows, etc.

ILLEGAL CARGO

Question. As experts in the operations of a major international waterway, can you estimate the value that this Canal would have to a drug-exporting cartel? Would it have any value at all?

Answer. The Commission has neither the responsibility, the expertise, nor the resources to monitor or interdict any possible illicit cargoes that may be shipped via the Panama Canal. Accordingly, we have no way of knowing to what extent the Canal may be used for the transportation of illegal cargoes and what value such cargo may represent to a drug-exporting cartel.

ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN JONES OF THE MERCHANT MARINE AND FISHERIES COMMITTEE

BORROWING AUTHORITY

Question. Have you had to use your borrowing authority under the revolving fund?

Answer. The Panama Canal Commission Revolving Fund Act provides the Commission with a borrowing authority of $100 million outstanding at any time. This authority serves essentially as a line-of-credit to backstop Commission obligations that are in excess of its expected cash receipts.

The Commission projects the need to use a portion of this authority in fiscal year 1990 to cover $9.257 million of obligations that are in excess of its estimated cash resources. The Commission anticipates having the resources on hand to cover those obligations when they become due; accordingly, no actual borrowings of funds would be involved.

REASON - 1988 LOSS

Question. Why did the Commission run $1.8 million short in 1988? Is traffic lower? Is the political situation in Panama affecting Canal revenues? Are costs up?

Answer. During fiscal year 1988, the political situation in Panama was very volatile; however, it did not affect Canal traffic or Canal revenues.

The Commission's actual experience with respect to revenues and expenses was essentially on target with the budgeted plan for the year. Costs for the fiscal year were up a marginal one-half of 1% from the projected total for the year resulting in the $1.8 million loss for the year.

TUGBOAT PURCHASE

Question. What is the status of the tubgoat purchases by the Commission?

Answer. Two towboats are presently under construction at Houma Fabricators in Houma, Louisiana, and are scheduled to be delivered at the end of fiscal year 1989. Additional replacements are scheduled each year through fiscal year 1995 with the exception of fiscal year 1990 when no tug replacements are included in the capital program.

REASON FOR TOLL INCREASE

Question. If the PCC was only $1.8 million short of funds in 1988, what are you going to spend the additional $31.3 million on if you get your toll increase?

Answer. While it is true that the Commission experienced a loss of $1.8 million in fiscal year 1988, it also had a loss of $0.6 million in fiscal year 1987. Moreoever, in fiscal year 1989, the Commission is projecting another loss of some $2.5 million. Even though these losses are relatively minor, the three years of consecutive and increasing losses point to a trend in the growth of traffic revenues being inadequate to absorb cost increases due to inflation.

The full impact of this trend is reflected in the fiscal year 1990 budget where the projected growth in revenue has been insufficient to cover the Commission's costs which have been increasing at the rate of some 3.0% to 5% per year since fiscal year 1988. The $31.3 million toll-increase requirement projected for that year is to cover the expected loss of $26.4 million (resulting principally from two years of inflation) that would otherwise occur plus the unearned costs totalling some $4.9 million for the previous three fiscal years.

TOLL RATES

Question. How much do you charge shippers now in tolls?

Answer. The current toll rates for cargo or passenger vessels per Panama Canal net ton (100 cubic feet) are as follows:

Laden	$1.83
Ballast	1.46

For all other vessels, the rate is $1.02 per displacement ton.

Question. What will be the new toll rate if tolls increase as you are proposing?

Answer. If the proposed toll rate is approved, the new rates per Panama Canal net ton for cargo and passenger vessels will be as follows:

Laden	$2.01
Ballast	1.60

For all other vessels, the rate will be $1.12 per displacement ton.

ADDITIONAL QUESTIONS SUBMITTED BY
CONGRESSMAN FIELDS AND CONGRESSWOMAN BENTLEY
OF THE SUBCOMMITTEE

CURRENT RELATIONS

Question. Would you describe the current state of relations between the Panama Defense Forces and the Panama Canal Commission?

Answer. The Noriega/Solis Palma regime continues to apply pressure to the Commission and its employees in an effort to force reversal of U.S. Government policy regarding the depositing of Panamanian employees' income and educational tax withholding into the Government of Panama's account with the Federal Reserve Bank of New York. In carrying out the regime policy, the Panama Defense Forces have taken measures against the Commission and its employees which strain relations and threaten to impact adversely on the operation of the Canal. There are increasing incidents of harassment and a general lessening of police protection in Canal communities. At the operating level, the Panama Defense Forces do respond to calls for assistance and carry out, at least in a perfunctory manner, their basic obligations under the Treaty. On balance, however, relations between the Panama Canal Commission and Panama Defense Forces are not good.

Question. Do the Panama Canal Treaties of 1977 require that Americans working for the Panama Canal Commission obtain Paz y Salvo (tax clearance certificates) documents from the Panamanian Government?

Answer. There is no requirement in the 1977 Panama Canal Treaty or related agreements that Americans working for the Panama Canal Commission obtain a "Paz y Salvo", or tax clearance certificate, from Panama. Pursuant to an agreement implementing portions of the Treaty, U. S. citizens employed by the Canal Commission are exempt from Panamanian taxes on income received as a result of their work for the Commission or derived from sources outside Panama.

Question. Isn't the PDF now requiring that these documents be obtained in order to transit or move within Panama?

Answer. The documents are being required in order to obtain 1989 license plates for vehicles.

VIOLATON OF TREATY

Question. Isn't that a violation of the Panama Canal Treaties? How have you responded to this illegal action?

Answer. It is the U.S. Department of State and not the Panama Canal Commission which is vested with authority to interpret treaties and other international agreements for the United States and, accordingly, the Commission defers to the Department with respect to definitive opinions as to what does, and what does not, constitute a treaty violation. Nevertheless, the Commission considers the imposition of the "paz y salvo" requirement on its U.S. citizen employees as harassment of that element of its work force. It, therefore, follows that the Noriega/Solis Palma regime's action in this matter is inconsistent with Panama's treaty commitments of (1) to cooperate with the United States to assure the uninterrupted and efficient operation of the Canal, and (2) not to adopt or enforce any decree or regulation which interferes with the exercise by the United States of rights granted under the Treaty or related agreements. Although, as a practical matter, the Canal's U.S. citizens have encountered no difficulty in obtaining the "paz y salvos", the Commission has made the American Embassy in Panama aware of its views with respect to the requirement.

Question. In your view, has the Republic of Panama violated the Treaties and, if so, can you document for the Committee any actual or perceived violations?

Answer. During the more than nine years which have elapsed since the Treaties entered into force, there have been a number of incidents which the Panama Canal Commission considered to constitute violations of those international accords by Panama. While no exhaustive listing of such occurrences is maintained by the Commission, all available information concerning perceived treaty violations is provided as a matter of course by the Canal agency to the Department of State, usually through its Embassy in Panama. The State Department has the sole authority to interpret for the United States, treaties and other international agreements to which this country is a party. Accordingly, questions concerning treaty violations might more properly be referred to that Department.

SCHOOL BUS INCIDENT

Question. It is my understanding that several weeks ago buses of U.S. school children were stopped and harassed by the PDF. What was our government's response to that blatant violation of our citizens' basic civil rights which are guaranteed by the Panama Canal Treaties?

Answer. The U.S. Government responded by using U.S. military police vehicles to block the movement of the PDF who were attempting to tow school buses loaded with U.S. children to the PDF headquarters. This action was necessary until such time as the children could be removed and transported to school through the use of school administrative personnel and/or their parents.

RELOCATION PROGRAM

Question. It is my understanding that late last year, you announced the creation of a new program which would help compensate American Panama Canal Commission employees who wish to relocate their families in the United States. What happened to that program?

Answer. The program approved by the Board of Directors to temporarily relocate dependents of U.S. citizen employees (but not employees themselves) is still in effect. Modifications have been made to the program's eligibility criteria which currently limit Commission-paid travel and per diem benefits to the dependents of Commission employees who have suffered direct physical harm or politically motivated harassment.

To date, 22 requests for relocation of dependents have been received by the Commission. Of that total, 2 have been approved, 11 have been disapproved, and the remainder are under review. While the program may appear restrictive, the Administrator has publicly stated that he is prepared to expand the eligibility criteria in the event he determines that such action is necessary to protect U.S. employees' families or to ensure the efficient operation of the Canal.

Question. What were the cost estimates of implementing that program?

Answer. The costs of implementing the program vary depending on the number of dependents who enroll in the program, the destination in the United States to which they are to be relocated, and the length of time the program is in effect. Initial estimates include an average round-trip air fare of $825 per dependent, plus a per diem on the average of $50 for dependents age 11 and over and $30 for those under 11, payable for up to a maximum of 180 days. Other costs, such as for mailing a reasonable quantity of personal effects and one round- trip visit by the employee during the 180-day period bring the program costs to approximately $4,600 to $8,800 per person, depending on the age of the dependent. Since only two requests have been approved to date, the cost of implementing the program has been minimal.

Question. Why have you changed the program so that in order to qualify you have to be first victimized by the PDF?

Answer. As the Commission's Voluntary Temporary Relocation Program (VTRP) was originally proposed, employees were allowed to relocate dependents for their safety or protection during a period when violent political activity was prevalent. It was amended when conditions became less volatile. In its current form, the program allows the Commission to relocate, at agency expense, the dependents of employees who have been subjected to physical harm or harassment which have been determined to be politically motivated. The Administrator may broaden the eligibility criteria at any time upon his determination that conditions in Panama warrant such action, or considers their relocation necessary for their safety and ultimately, the continued efficient operation of the Canal.

Question. Haven't all of your employees already been victims of fear, intimidation, and harassment? What does it take to qualify?

Answer. While there is considerable apprehension, tension and fear among Canal employees concerning instances of harassment, there is no apparent evidence that U.S. citizen employees of the Commission as a group are being targeted by the Panama regime for such overt action. As noted above, however, those who have suffered direct harassment or physical abuse are immediately eligible for relocation under the Commission's voluntary relocation program.

Question. Wouldn't it be better to simply relocate those families to the United States? Why not?

Answer. While there is a great deal of concern over adverse conditions in Panama, none of the U.S. Government agencies in the area has determined that local conditions warrant the evacuation of dependents at this time. Should the situation worsen to a point where Commission U.S. citizen employees and their dependents are being targeted for abuse or harassment, the Commission will take all the necessary steps to ensure safety of its U.S. citizen employees and their families.

STATUS OF MILITARY

Question. Is the military still on any type of alert status in Panama? How does this affect your operations?

Answer. As of the day of the hearing, normal status at the Canal is the order of the day.

COMMISSION'S EMERGENCY PLANS

Question. Does the PCC have emergency evacuation plans for moving personnel and their families out of Panama if they are in danger?

Answer. Yes. The Commission has participated in extensive emergency evacuation planning with the Department of Defense and the American Embassy in Panama. The implementation of such plans would be triggered by the Ambassador, should he decide that the mandatory evacuation of American citizens from Panama was needed. The Commission has developed a detailed evacuation plan for the relocation of dependents of U.S. citizen employees to a safe haven (most likely the United States) should the need arise. This plan is a subcomponent of the master evacuation plan developed by the U.S. Forces who has the responsibility for transporting U.S. citizens out of Panama to a safe haven. The plan was tested recently during a mock evacuation exercise conducted by the U.S. forces, using volunteers from the Commission and the military.

HEALTH CARE

Question. Is obtaining adequate health care in Panama still a problem for PCC employees?

Answer. Commission employees who are covered by Panama's Social Security System (CSS) continue to experience inadequate health care and related services at CSS hospitals and clinics. Medical supplies and medicines are frequently unavailable, and patients' families must attempt to purchase these items from other sources. Additionally, medical treatment is sometimes delayed, nonemergency surgery is sometimes postponed, and hospitals are understaffed. Furthermore, delays are being experienced in the processing of disability retirement papers and injury compensation payments.

To augment the CSS health services, employee unions are in the process of sponsoring health insurance plans for interested employees and their families, payable through payroll deductions, so that they may obtain affordable medical care at private hospitals and clinics.

SHOPPETTE ISSUE

Question. What is the status of the shoppette issue?

Answer. About 600 Panama Canal Commission U.S. citizen employees who lost their rights to use military PX, commissary, and postal facilities in 1984 were granted temporary access to military shoppettes at the height of the civil disturbances in Panama last year in order to procure the basic necessities for themselves and their families in a safe environment. While disturbances in Panama over the past year have decreased, the shoppette purchasing privileges have been continued because of the concerns that still exist regarding the safety and welfare of Americans in Panama.

INTEREST PAYMENTS

Question. What is our current investment base in the Panama Canal?

Answer. The current interest-bearing investment base of the United States in the Panama Canal at the end of February 1989 was $130.5 million.

Question. What rate of interest was used to calculate the $13.5 million interest payment in fiscal year 1990?

Answer. Public Law 96-70 requires the Commission to use the average coupon rate on outstanding marketable U.S. Treasury bonds in July of each year for the ensuing fiscal year.

In projecting the cost of interest expense, the Commission requests the Department of Treasury to provide suggested rates to use in developing this estimate. The rate used for calculating the interest expense in fiscal year 1990 was 10.290%.

Question. What would have been the interest payment in fiscal year 1990 without the Congressional changes enacted as part of the revolving-fund system in 1987?

Answer. The Congressional change in 1987 resulted in the Commission depositing into the U.S. Treasury accrued interest amounting to $61.7 million covering the period October 1, 1979 to December 31, 1985. Had this accrued interest not been deposited into the U.S. Treasury, the investment base would be estimated at $69.1 million. With the interest rate of 10.29%, the adjusted interest expense would have amounted to $7.1 million or a net savings of approximately $6.4 million over the estimate of $13.5 million contained in the Commission's budget in 1990.

Question. What is the total that the Commission has now paid in interest payments since fiscal year 1980.

Answer. For the 9-year period, fiscal year 1980 through fiscal year 1988, the Commission has deposited $84.8 million of interest into the U.S. Treasury.

Question. Do you anticipate an interest payment of $13 million per year until the transfer of the Canal?

Answer. The Commission's interest payment is dependent on two factors: (1) The amount of the United States' investment in the Panama Canal, and (2) the interest rate determined by the average coupon rate on outstanding marketable U.S. Treasury bonds. While it can be expected that the investment base will remain relatively stable throughout the term of the Treaty, interest rates are unpredictable and could fluctuate widely. Assuming minor fluctuation in the interest rates, it would be reasonable to anticipate the stabilization of the interest payments at about $13 million annually.

TOLLS

Question. In your budget justification, you note that there will be a toll increase in fiscal year 1990. How much of a toll increase are you anticipating?

Answer. Following seven years of stable toll rates, the proposed budget for fiscal year 1990 projects the necessity of a toll-rate increase of 9.1%. The last toll-rate increase occurred in March of 1983 in the amount of 9.8%.

While the budget under consideration contemplates the need for a 9.1% increase in toll rates, the specific level of increase to be proposed is still subject to review.

Question. How much money will this toll increase raise each year and will it completely offset the downward trend in Canal traffic?

Answer. The toll increase as proposed in the budget would generate an additional $31 million per year. The Commission's projections for 1990 should not be viewed as reflecting a downward trend in Canal traffic. The 1990 tolls at $342.5 million is forecast slightly above the 1988 level of $339.3. Beyond 1990, we see moderate overall growth in traffic of about 2 percent a year. The 1990 estimate in the budget represents the low point of a temporary decline in traffic, preceding a resumption of a cycle of modest long-term growth.

Question. What kind of analysis have you done to study the impact of a toll increase? What impact will it have on world shipping?

Answer. A comprehensive series of analyses are required prior to proposing a toll increase. An understanding incorporated in the Resolution of Ratification by the Senate for the Treaty Concerning the Permanent Neutrality requires the following factors to be considered:

- Costs of operation and maintenance of the Panama Canal.
- Competitive position of the Canal in relation to other transport modes.
- Interests of the United States and Panama in maintaining their domestic fleets.
- Impact on the various regions of the United States and Panama.
- Interests of both countries in maximizing their international commerce.

All of these factors have been analyzed. It has been determined from these studies that an increase in tolls, even at rates somewhat higher than now proposed, would not have any adverse impact on world shipping or any of the other areas studied.

Question. How many other toll increases have been implemented by the Commission since 1979? Could you describe them?

Answer. The Commission has implemented only one toll-rate increase since 1979. That increase, which amounted to 9.8%, became effective in March 1983 and was driven by the loss of the Alaskan North Slope traffic, which at its peak amounted to some $50 million per year.

Question. Is this toll increase in any way necessary because of the change in your financial structure from an appropriated-fund agency to a revolving-fund account?

Answer. No. The need for an increase in Canal toll rates is not related to the change in the Commission's financial structure. Higher toll rates are required because cost increases due to inflation are outpacing revenue inflow from traffic growth.

Question. Could you describe the procedures that the Commission must follow to implement a toll increase?

Answer. The Panama Canal Act of 1979 prescribes the procedure that must be followed to implement a toll-rate change. In essence, that procedure requires the Commission to:

Publish a proposed toll change in the Federal Register.

Make available an analysis to the public which shows the basis and justification for the proposed rate change.

Conduct a public hearing to give interested parties an opportunity to express their views on the tolls proposal.

Publish in the Federal Register the toll rate to be recommended to the President of the United States.

Forward a complete record of the toll-rate proceedings to the President with the Commission's recommendation.

Implement the toll-rate change approved by the President. The President's decision on the proposed toll-rate change is final.

Question. What role, if any, does Congress have to play in this process?

Answer. The Commission, under the Panama Canal Act of 1979, has the responsibility for monitoring its revenue requirements and proposing a toll-rate increase if it determines such an increase is necessary to meet its legislative mandate to operate on a self-sufficient basis. While the law does not give the Congress a role in the toll-rate-setting process, it is the Commission's policy to keep the Congress fully informed of the Commission's intent regarding toll-rate increases.

EXPENSES

Question. What are your final revenue estimates for fiscal year 1989. Do you anticipate a profit payment to Panama?

Answer. The Commission's current estimate is that tolls revenues at the end of the year will be very close to the budget levels. It may be slightly under the $345 million level.

At these projected levels, we are anticipating a moderate loss for the year and thus will not make a profit payment to Panama.

Question. What is your traffic forecast for fiscal year 1990. Do you have any studies which substantiate that conclusion?

Answer. For fiscal year 1990, the traffic forecast is for 12,425 oceangoing vessels and 1,300 small craft for a total of 13,725 transits.

Panama Canal traffic and tolls revenue forecasts include both short and long-range forecasts developed by our in-house economic staff and by independent consulting firms under contract to the Commission. The forecast techniques vary, but in all cases, the researchers rely heavily on statistical analysis of historical Panama Canal traffic data, on extensive market analysis, and on continuous research of economic and trade material. Economic judgment, based on the knowledge of factors that influence Canal traffic patterns, is an essential ingredient in the process. Additionally, Panama Canal economists meet each year with Canal users, major decision makers within the maritime industry, and others knowledgeable about trade and transportation patterns. The information gathered during these interview sessions is incorporated into the Agency's forecasts.

Question. Is the trend still in the direction of PANAMAX vessels providing an increasing percentage of your overall tonnage?

Answer. Yes. The Commission expects the trend toward larger vessels to continue, although the rate of increase will not likely be as high as in the past. The Panama Canal net tonnage of PANAMAX vessels (beams of 100 feet and over) in fiscal year 1988 accounted for 46.8 percent of total net tonnage versus 44.0 percent in 1987. Through the five months of fiscal year 1989, however, the number and proportion of transits by wide-beam vessels are below the levels registered during the same period in 1988, indicating that this category may not account for as high a percentage of net tonnage in fiscal year 1989.

Question. Why are you requesting a two-year authorization?

Answer. A two-year authorization would appear to be consistent with Public Law 100-203 which established the Panama Canal Commission as a Revolving-Fund agency. The law recognized that it may not be practical to enact legislation each year. Nevertheless, the Commission will continue to prepare and submit an annual operational and capital budget for review each year by this Committee. The two-year approach allows the Commission to make expenditures within the limits of funds available to it and at the same time, complies with the "Emergency Authority" provision (Section 5423 of Public Law 100-203). That authority allows the Commission to operate without authorizing legislation for a period of not more than 24 months.

Question. Can you elaborate on the losses incurred in the last two fiscal years?

Answer. The Commission has experienced consecutive losses in fiscal years 1987 and 1988 of $0.6 million and $1.8 million, respectively. It is projecting a loss of $2.5 million for fiscal year 1989. While these losses are relatively minor, they point to a trend in the growth of traffic revenues being inadequate to absorb cost increases due to inflation.

Question. Is the decline in daily transits and yearly total transits a continuing trend?

Answer. The projections for fiscal year 1990 should not be viewed as reflecting a downward trend in Canal traffic. Beyond fiscal year 1990, we see moderate overall growth in traffic of about 2% a year. The fiscal year 1990 estimate in the budget represents the low point of a temporary decline in traffic, preceding a resumption of a cycle of modest long-term growth.

Question. Can you give me an update on the road building activities of the Commission?

Answer. The road maintenance activity performed by the Commission only includes minor asphalt overlays and pothole patching of limited access roads and parking areas, as is required to ensure the safety of personnel in and around work sites within the Canal operating area. The Commission does not have the responsibility nor the capability to accomplish any major road building activity.

Question. Are the Panamanians still refusing to maintain the Transisthmian Highway and are they still refusing to allow any U.S. agency to perform any maintenance?

Answer. Some efforts have been made in recent months by Panama to repair some of the most dangerous sections of the Trans-Isthmian Highway. Such work, however, appears to be temporary in nature and fails to address the major repairs that will be needed to restore the road permanently to a safe condition. Previous warnings from Panamanian authorities that the Commission refrain from repairing the road with its own resources or by contract have not been withdrawn.

Question. The Commission continues to budget for the Treaty-required "services" payment of $10 million per year. Are any of these services being performed by Panama?

Answer. As a general rule, the Panama regime has continued to provide, but at a decreased level, services to the Canal operating and housing areas since the U.S. Government began escrowing the public service payments last year. Garbage collection has been reduced from three times a week to once a week, raising the potential for increased sanitation and health hazards; police protection throughout the Canal area has been generally reduced, resulting in increased burglaries and thefts of both Panama Canal Commission and privately owned property; Canal area townsites have experienced prolonged periods of street light outages as a result of decreased maintenance of street lights and lack of spare parts; street maintenance and traffic management are virtually non-existent. Fire protection is the only public service which appears to have been unaffected by the escrowing of public service funds.

Question. Has there been an increase in the number of accidents in the Canal in the last year or since the troubles in Panama began?

Answer. No. Work-related accidents in fiscal year 1988 were down from fiscal year 1987, showing an incidence rate of 5.8 per 100 employees versus 7.9. Our incidence rate for the first four months of the current fiscal year is 4.9.

Question. Have the disturbances in Panama had any effect on the Pilot-In-Training program or other recruitment and training programs in recruiting qualified Panamanians?

Answer. No. In fact, interest in employment opportunities with the Commission has increased due to the higher U.S. wage scale and the economic situation in Panama.

Question. Are there any Panamanians currently in any of the Maritime Academies or other military academies in the U.S.?

Answer. There are currently about 50 Panamanians attending maritime academies in the U.S. We have no information regarding Panamanians who may be attending other military academies in the U.S.

CAPITAL OUTLAY

Question. On page 35 of your budget document, you note that you intend to acquire a mechanical planer for $1.2 million. What are the functions of this equipment, and how many do you currently have in your fleet?

Answer. This planer shapes and smooths large pieces of metal in equipment used at the locks miter gates, the hydro power plants, dams and spillways, tow tracks, and the locks rising stem valves.

We currently have two old planers (service dates 1930 and 1944). These planers are obsolete and require constant maintenance. The new planer will accomplish the work of the two old planers, which will be removed from service once the new planer is fully operational.

Question. Are there any U.S. firms that can build a mechanical planer in a cost-effective manner?

Answer. Generally, planers of this type can be procured cheaper from sources outside the U.S.; however, since we use U.S. Federal and military specifications, the cost may be higher than would normally be the case. It is our understanding that there is one U.S. company, that claims to be able to build this type planer. However, we don't have any information at this time regarding their cost of manufacturing such a planer.

Question. After reviewing your capital request, I was somewhat surprised that you haven't budgeted any funds for the acquisition of a new harbor tug. What are your long-term needs, and how many tugs does the Commission now utilize?

Answer. It was originally intended to purchase a towboat each year through fiscal year 1994; however, agency financial considerations in fiscal year 1990 precluded the procurement of a tug in that year. The current towboat program provides for the procurement of five (5) towboats between fiscal year 1991 and fiscal year 1995.

The transit operation function utilizes a total of sixteen (16) towboats to assist normal traffic activities. In addition, a seventeenth (17) towboat is being utilized to assist ships to enter/depart the north end of Gatun Locks where vessel movement is restricted due to the ongoing installation of a locomotive turntable on the north end of the centerwall of Gatun Locks. The towboat temporarily assigned there will be utilized for this same purpose through the completion of the locks turntable project in fiscal year 1991.

Question. In the Commission's budget, it was noted that you intend to replace several metalclad switchgears. You also noted that spare parts for these switchgears were difficult to obtain. Is this a problem that has been exacerbated by the current political crisis in Panama, and are spare parts now generally more difficult to obtain?

Answer. The current political crisis has not had any significant effect on the procurement of spare parts for these switchgears. The procurement of spare parts for old equipment is extremely difficult even under ideal situations. The switchgears to be replaced are over 40 years old, and spare parts are simply no longer available.

Question. One of the recurrent items in the Commission's budget request is money for fire protection at the locks. Could you describe the additional fire protection measures that you are now undertaking.

Answer. The current ongoing project to provide fire protection at the locks is a multi-year project. The project will provide a fire protection system at both approaches of each of the three locks complexes. The system will provide the means to more effectively fight a fire within the locks complex and avoid potential damage to locks facilities, machinery, locomotives, miter gates, controls and/or personnel by the installation of an independent water source at each lock wall, in addition to providing foam firefighting capabilities at ground and above ground levels. The project began in fiscal year 1988 and is scheduled for completion by fiscal year 1993.

Question. On page 35, you have budgeted $1.3 million for navigational aids. Could you describe these improvements?

Answer. This project provides $300 thousand for the second phase of upgrading the computer assisted Traffic Management System and $1.0 million for increasing the control of vessel movements throughout the waterway through the implementation of a Ship Tracking System.

ACCIDENTS

Question. How many major vessel accidents occurred in Canal waters in 1988?

Answer. During fiscal year 1988, there were 51 vessels involved in 42 accidents of which damage to 10 were determined not to be the fault of the Commission. Of the 41 vessels damaged which the Commission was determined to be partially or fully at fault, 1 is considered to be major in that the potential liability exposure of the Commission is estimated to exceed $1.0 million.

Question. What is the extent of your financial liability in these cases?

Answer. Because the great majority of the potential claimants have not yet filed their demands with the agency, it is too early to quantify definitively the Commission's financial liability arising out of the vessel accidents occurring in 1988. Nevertheless, we can state at this time that a total of $62 thousand has been paid and that our remaining exposure has been tentatively estimated at $4.1 million for fiscal year 1988 accidents.

Question. At what financial threshold are they now referred to the Board of Directors for a final decision?

Answer. Vessel accident claims adjudicated for settlement in excess of $500,000 are referred to the Board of Directors for their approval.

Question. Have any of these accidents occurred because of the political crisis in Panama?

Answer. No. We do not have any evidence to suggest that any of the vessel accidents that have occurred in the Canal are in any way caused by the local political situation.

Question. Have there been any major accidents involving small pleasure-type vessels transiting the Canal without the benefit of a PCC pilot?

Answer. There have been no major accidents involving small pleasure-type vessels transiting the Canal this fiscal year. One small yacht was recently involved in a minor accident in the Canal with an estimated liability of $12,000.

OPERATING CONDITION

Question. In your judgment, is the Panama Canal in better or worse operating shape, in terms of physical equipment than it was prior to September 30, 1979? Could you elaborate?

Answer. The Panama Canal organization has had a continuing policy of replacing its plant in a timely manner to insure the safety and efficiency of operations. Since September 30, 1979, the Panama Canal Commission has sought to provide sufficient funding for the timely replacement of equipment and facilities, and will have expended over one-third billion dollars in the effort by the end of fiscal year 1990. In the same period, in excess of one billion dollars will have been spent on plant and equipment maintenance. Where possible, the agency has taken advantage of new technologies to aid in increasing the efficiency and safety of Canal operations. The Panama Canal is today in better operating shape, in terms of physical equipment and facilities than in the years prior to September 30, 1979.

Question. What are some of the major capital improvements that you envision during the next three to five years?

Answer. The major capital improvements envisioned by the Panama Canal Commission at this time for the next three to five years include:

Add Fire Protection, Locks (continuation of current project)
Replace Locks Control Boards and Machinery
Add Two Spare Miter Gates, Locks
Replace Five Towing Locomotives
Replace Tugboats (one each year 1991 through 1995)
Replace Switchgear, Gatun Hydro-Electric Plant
Add Gas Turbines, Miraflores and Pedro Miguel Locks
Replace Water Mains, Canal Operating Areas
Add Locomotive Electric Crane, Centerwall Gatun Locks
Replace Crane Boat
Replace and Add Launches
Add Lateral Transfer System, Tug/Locks Miter Gate Repair Facility
Replace Industrial Division Cranes
Relocate Apprentice School from Balboa Industrial Area

Question. What is the cost?

Answer. Only preliminary rough estimates have been developed for most of the major capital improvements envisioned for the next three to five years. These estimates at this time indicate that the improvements listed will cost somewhere between $80 and $100 million if they are all scheduled and accomplished as envisioned.

IMPACT OF INTERNATIONAL EMERGENCY ECONOMIC POWERS ACT

Question. How many separate escrow accounts were established in compliance with the President's International Emergency Economic Powers Act (IEEPA). Could you describe them?

Answer. It is our understanding that three escrow accounts have been established with the Federal Reserve Bank of New York. One account was used to consolidate all the cash assets of the Government of Panama which were on deposit with financial institutions in the United States; the second account is used for deposits made by U.S. private organizations operating in the Republic of Panama; and the third account is used by U. S. Government agencies to deposit payments due the Government of Panama.

Question. Isn't the General Accounting Office (GAO) auditing these accounts, and when are their findings expected?

Answer. Yes. It is our understanding that the General Accounting Office (GAO) is reviewing the development and implementation of the entire Panama sanctions program, including the auditing of these accounts. The Commission was notified by GAO of its audit in February 1989 and was asked to provide certain information regarding the actions it has taken under the sanctions. Commission officials met with GAO representatives in February and furnished them with a detailed accounting of monies deposited by the Commission into escrow account #3, as required by Treasury regulations. We do not know when the GAO expects to complete its study.

Question. In terms of public services, how has the Noriega regime responded to the escrowing of these funds?

Answer. As a general rule, the regime has decreased the level of services furnished to the Canal operating and housing areas since the U.S. Government began escrowing the public service payments last March. Garbage collection has been reduced from three times to once a week, raising the potential for increased sanitation and health hazards; police protection throughout the Canal area has been generally reduced, resulting in increased burglaries and thefts of both Panama Canal Commission and privately owned property; Canal area townsites have experienced prolonged periods of street light outages as a result of decreased maintenance of street lights and lack of spare parts; street maintenance and traffic management are virtually non-existent. Fire protection is the only public service which appears to have been unaffected by the escrowing of public service funds.

Question. Hypothetically speaking, does the Commission have the resources to collect this garbage, repair roads in the former Canal Zone, and perform the other services provided by the Government of Panama?

Answer. The Commission would have the resources to collect the garbage on a temporary basis; however, additional resources would be required if the Commission were to assume responsibility for providing the service for an extended period of time. Although the resources could be made available, this alternative could risk a confrontation with the Government of Panama authorities, thereby jeopardizing the safety and security of Commission employees and equipment. The Binational Coordinating Committee has advised the Commission that Panama has jurisdiction over the provision of public services, thus implying that it would not permit the Commission to perform that function.

Fire protection could be provided on a limited and temporary basis if necessary. Additional equipment would be required to provide the same level of service as is currently being provided jointly by the Commission and Panama Fire Department (Bomberos) who cooperate in providing fire protection services. The issue of jurisdiction would also risk a confrontation with Government of Panama authorities, jeopardizing the safety and security of PCC employees and equipment.

The Commission does not have the resources available to provide police protection.

The Commission's road-repairing capabilities are limited and, thus, it can only handle minor road repairs within the Canal operating areas. Additional resources would be required if the Commission were to assume the responsibility for repairing other roads in the former Canal Zone, (including housing areas). If such resources were provided, minor repairs could be done in-house; while major repair jobs would be done under contract.

MISCELLANEOUS

Question. Could you give us an update on the Husted case?

Answer. After considerable delay by the claimant in providing the Commission with supporting medical data (Mrs. Husted requested that the matter be held in abeyance pending a reevaluation of her condition at a facility in the United States), the agency's occupational health physician has now been able to evaluate all the available medical records pertinent to the claim. Based upon that evaluation, the Commission has developed a settlement offer which it will be presenting to the claimant's representatives in the next several days.

Question. Are housing transfers still being made by the Commission to the Republic of Panama?

Answer. No. The Commission had anticipated transferring 100 units in fiscal year 1989 and an additional 45 units during fiscal year 1990. However, the transfer of these housing units is dependent on the normalization of relations between the United States and the Republic of Panama.

Question. Do you anticipate transferring any excess property or housing to the Government of Panama in fiscal year 1990?

Answer. The Commission does not anticipate transferring any significant amount of excess property to the Government of Panama in the near future. Although some Panama Canal Commission housing, the use of which is no longer required by the Commission, might otherwise be releasable to the Government of Panama, the current political situation precludes the Commission from doing so. All housing transfers are currently on hold until such time as relations between Panama and the United States return to normal.

Question. Can you give us your opinion of the proposal to build a Canal across Nicaragua and what effect this might have on traffic through the Panama Canal?

Answer. An assessment at this time of the viability of a new canal across Central America is difficult to make, but a quick analysis suggests that the economics of the proposal would likely not justify the construction of such a Canal. Current trade patterns do not indicate that the volume of cargo that would be required to make it feasible is available. Potential users of that canal would primarily constitute trades now bypassing the Panama Canal on ships too large to transit or through other transportation modes. The seaborne movement of goods, however, is complex and depends upon a variety of factors, such as constraints at loading and unloading ports, freight rates, transit times, and alternative sources of supply and transportation. The availability of such a canal does not necessarily mean that diversions to that alternative would occur.

Regarding the impact on Panama Canal traffic, if the new canal offered lower rates and faster transit times than those provided by the Panama Canal, certain cargo movements now using the Panama Canal could divert to the new waterway.

Question. Are there still plans to build a rail bridge across Panama to move container traffic without using the Canal?

Answer. The Commission understands that the final draft of the feasibility study of the Panama Centerport project, which includes a rail bridge, is currently under development. According to a Port Authority official, they have plans to complete the study soon and go ahead with the implementation of the project by the end of the year.

Question. Is the "U.S./Panama Consultative Committee" still operational? What is the status?

Answer. The Consultative Committee is established by the 1977 Treaty with the Republic of Panama. The Reagan Administration and the Government of Panama have appointed their respective complement of members to serve on the Committee. However, because of certain earlier problems and more recently because of the strained relations between the United States and Panama, the Consultative Committee has never gotten off the ground. Accordingly, the current status of the Consultative Committee can best be characterized as a non-functioning body.

Question. In the past, we have talked about the deforestation problem above Gatun Lake. Could you give us an update on this situation?

Answer. The Commission continues to have concerns about the deforestation of the Canal watershed, and there has been some progress made with the respective Panamanian authorities.

It has been emphasized that the still mostly forested upper Chagres region of the Watershed is of greatest importance to the long-term future of the Canal. This high mountain, high rainfall area of approximately 400 square miles must continue to be protected from deforestation and damaging land-use practices (like cattle ranching), to prevent potentially major increases in sedimentation. The Commission has had the full understanding and support of the Joint Committee on the Environment on this, and there are some encouraging signs that the focus of immediate attention by the protective forces and environmental groups has turned to the Upper Chagres' forests.

The Commission considers a step in the right direction to be the tree-cutting ban initiated by the Panamanian Government in 1987, together with improved environmental law enforcement by forest rangers and protective force patrols. It is hoped that such efforts will continue and that overall deforestation rates in primary forests of the Canal Watershed will progressively decline from the highest levels which were recorded some 15 years ago.

Question. Do you anticipate the Panamanian Board members will participate in the April Board meeting?

Answer. The Commission has been notified that the Noriega/Solis Palma regime has made the decision that the Panamanian members of the Board will be at the meeting on April 5th and 6th, 1989. Whether they actually attend, remains to be seen.

Question. Can you speculate on any possible nominees for the Administrator's position in 1990 when the Treaty requires a Panamanian in this position?

Answer. No information has been received relating to any potential Panama nominees for the Administrator's position. The Panamanian election scheduled to be held on May 7, 1989 and the Administration's position relative to the results of the election will be instrumental concerning when a Panamanian will be submitted/considered for appointment as Administrator.

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